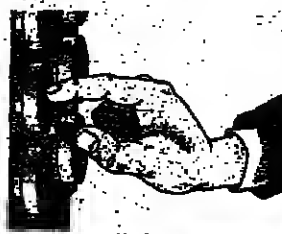


January 30 1997

bounce

FINANCIAL TIMES



Hotel mergers

Driven by a travel boom

Page 19



Russia

New threats require a new response

Personal view, Page 18

Today's surveys

Investment Banking
Property Finance

Separate section & Pages 29-31

TOMORROW'S
Weekend FT
Taking care of business

The FT at Davos

World Economic Forum
Forum: Starting today, a special half page of news and analysis from this important summit.

Tripartite panel on Nazi gold may reconvene

The Tripartite Commission on Monetary Gold met in Brussels to consider growing pressure to reconvene its 1946 agreement. UK and US representatives have already agreed informally not to distribute any more of the 5.5 tonnes of gold it still holds to central banks looted by the Nazis until it can be determined that none of the gold came from individual victims. Page 2

Hennes & Mauritz, the Swedish fashion retailer, is to open a further 50 outlets this year as it pursues a growth trail that has made it the hottest stock on the Stockholm bourse. The company plans to enter the French market in 1998. Page 21

Madir aide set free: Elizabeth Forsyth, former aide to Asil Nadir, walked free after the Court of Appeal in London in effect quashed her five-year jail sentence for laundering money stolen from the Polly Peck empire. Page 8

Suharto linked to sale of mining stake: Bakrie & Brothers, an Indonesian conglomerate, has agreed to sell its indirect stake in Freeport Indonesia, one of the world's largest copper and gold mines, to an investment company linked to President Suharto, left. The sale comes only two weeks after founder Mr Aburizal Bakrie said the company would not divest the stake. It denied any political pressure to make the sale. Page 20

Hopes for flu pills: Researchers at Glaxo, a California biotechnology company, have raised hopes that a pill could eventually cure or prevent influenza. In animal tests, symptoms disappeared within 24 hours, with no harmful side effects. Page 20

Albanian tension: Vehbi Alimucaj, founder of the VEFA Holding conglomerate, claims investments from bitumen mines to helicopters, and plays the part with his Mercedes-Benz and Lear jet. But many observers think VEFA is at the heart of the pyramid schemes that have brought Albania to the brink. Page 20

Save the caviar: The five nations on the Caspian Sea have agreed a \$150m fish-farming programme to save the caviar-producing sturgeon. Russia, Iran, Azerbaijan, Kazakhstan and Turkmenistan may also ask for funds from the oil companies operating in offshore fields.

Order sought on nuclear waste: The US nuclear power industry is asking a federal appeals court to force the Energy Department to begin disposing of radioactive waste next year. The industry also wants to halt its payments into a fund for nuclear waste storage.

France boosts Latin aid: France's finance minister Jean Arthuis signed two agreements with the Inter-American Development Bank to increase aid to Latin America. Besides development loans and grants, it will start a technical fund with a grant of FF220m (\$3.8m).

Airline moves: A senior official of the Russian air carrier Transaero said Trans World Airlines has reacted positively to a takeover proposal. Meanwhile, the ailing Belgian airline Sabena denied reports that Swissair plans to shut it down and sell it off in pieces.

Bulgarian cash rush: Crowds gathered outside banks in Sofia, Bulgaria, hoping to exchange their savings for dollars - or any money that would not go into free-fall like the increasingly worthless leva. Bus and tram stations were practically empty as transport workers staged a warning strike.

FT.com: The FT web site provides online news, comment and analysis at <http://www.ft.com>

STOCK MARKET INDICES	
New York: Dow Jones Ind. Av.	5,770.76 (+30.02)
NASDAQ Composite	1,362.08 (+6.91)
Europe and Far East	
CAC40	2,990.06 (+38.05)
DAX	3,017.32 (+18.12)
FTSE 100	4,228.4 (+20.9)
Nikkei	17,864.84 (+71.28)
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Federal Funds	5 1/4%
3-month Treasury Bill	5.155%
Long Bond	5 1/2%
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EU looks at air slots deal

By Caroline Southey in Brussels and Michael Stoopink in London

Brussels proposes time limit compromise

The European Commission is considering a compromise on the thorny issue of airport take-off and landing slots by limiting the time airlines can hold such slots in return for allowing them to be bought and sold.

Airlines hold the slots in perpetuity, giving them so-called "grandfather rights". The controversial proposal has emerged as a possible solution to a stand-off between Mr Neil Kinnock, the European commissioner for transport, and Mr Karel Van Miert, commissioner for competition, over

legalising the sale of slots. Airlines receive their slots free of charge, but many sell them on a grey market. Mr Kinnock is believed to have been planning to legalise these sales but was forced to postpone tabling his proposals because of opposition from Mr Van Miert.

An EU official said Mr Kinnock might agree to limiting "grandfather rights" as a quid pro quo for Mr Van Miert accepting the principle of the sale of slots.

EU officials said yesterday, however, that a compromise would probably be postponed until the future of a proposed alliance between British Airways and American Airlines had been clarified.

Russian diamonds may run out, warns watchdog

By Kenneth Gooding, Mining Correspondent

Russia's diamond stockpiles will run out by the middle of next year if sales from the stocks continue at the present rate, according to a parliamentary watchdog.

The Russian Accounting Chamber, which plays a role similar to that of the US General Accounting Office, the congressional spending watchdog, has called for an immediate halt to sales, according to a report today in the *Diamantaire* newsletter, published by the CRU International consultancy.

The move will add to a growing impression among western diamond traders that there might be shortages of some rough, or uncut, diamonds before 2000, and that prices of some gem stones will rise.

Mr James Pictou of Standard Equities, the Johannesburg stockbroker, suggested at the Financial Times diamond conference last October that Russian stocks might run out by 1998 and shortages of diamonds develop by 2000.

The size of the Russian diamond stockpiles has remained a state secret.

Diamantaire reports that the Russian budget authorised sales from the state diamond and gold stocks of Rbs4.6 trillion (\$1.5m) for 1995. Actual sales reached Rbs13.3 trillion, however.

The report also urges Russian diamond cutters to stop sending gem stones abroad for processing. De Beers, the South African group that organises the diamond producers' cartel, has complained in the past that this route has been used for the unofficial export of diamonds to the west. The chamber says the Russian industry was supplied with \$1.4bn of diamonds from the stocks in both 1994 and 1995 and more than \$900m worth was sent abroad for polishing.

Analysts said yesterday that members of the Accounting

Samsung acts to remedy fall in profits

By John Burton in Seoul

South Korea's Samsung Electronics, the world's largest producer of computer memory chips, yesterday said it was reducing output of its 16-megabit chip in an attempt to improve sagging profits.

Reduced supply of the 16-megabit chip is viewed as the prelude to Samsung increasing production of the higher-valued 64-megabit D-rams, in which it is one of the world's leading producers.

An 80 per cent drop in the global price of the 16-megabit dynamic random access memory chip (D-Ram) last year is expected to reduce Samsung's 1996 earnings to one-tenth of the Won2,500bn (\$2.9bn) profit it reported in 1995. The decline in chip prices contributed to South Korea's record current account deficit of \$23bn last year. Semiconductor account for almost 30 per cent of Korea's exports.

Other main Korean chip-makers, including LG Electronics and Hyundai Electronics, are expected to follow Samsung's decision in an attempt to increase the price of the 16-megabit chip. Korea accounts for about 30 per cent of the chip's global production, with Japan, Taiwan and the US providing most of the rest.



Tushar Gandhi, great grandson of Mahatma Gandhi, founding father of modern India, releases the last of his ashes into the Ganges at Allahabad on the 49th anniversary of his assassination. Most of Gandhi's ashes had been scattered throughout India, but some remained in a bank.

Alcatel shares in surge as revamp starts to pay off

By David Owen in Paris

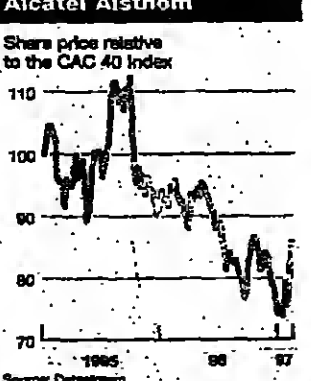
Shares in Alcatel Alsthom soared more than 15 per cent on the Paris stock exchange yesterday after the French telecoms and engineering group released figures indicating that a sweeping restructuring programme launched in 1995 was starting to pay off.

The company said it expected operating income in 1996 to exceed FF2.7bn (\$400m) more than four times the comparable 1995 figure of FF600m. Net income after taking into account exceptional items should amount to FF2.5bn.

In 1995, the group reported the biggest loss in France's corporate history - FF26.6bn - after including more than FF23bn in exceptional provisions and depreciation charges for the restructuring programme launched by Mr Serge Tchuruk shortly after he took over as chairman.

The rise in the Alcatel share price, which closed ahead FF70.30 at FF623, was merely the most noteworthy among many strong performances on a landmark day for the Paris stock market.

Stronger than expected results from large French companies and further advances on Wall Street helped propel the benchmark CAC 40 index



She said the results also indicated the group was succeeding in repositioning its core telecoms business away from relatively sluggish markets for switching equipment to fast growing areas such as mobile telephony and transmissions.

The company, which remains a likely bidder for the Thomson-CSF defence electronics business said its 1996 sales were little changed from year-earlier levels at FF182bn. Orders, however, were up 8 per cent to FF185.2bn, reflecting an improvement in business activity.

Telecoms orders were particularly strong, registering a 21 per cent advance after what the group described as "a significant flow of contracts". This helped the unit, as expected, to make a positive contribution to operating income in the second half. This followed a first half operating loss of FF1.1bn.

A breakdown of sales also released by the group indicated that the telecoms division contributed FF71.2bn in 1996, up from FF66.9bn the previous year. The next largest contribution came from cables - down from FF40.7bn to FF36.4bn.

Leading Advice Worldwide

SUNAMANCE £5 billion merger with Royal Insurance	Henkel US\$1.2 billion acquisition of Loxite	M&A FF6.6 billion alliance with Credit Commercial de Belgique	HEINEKEN FF2.2 billion acquisition of Brumeries Fischer	CANAL+ FF2.5 billion acquisition of UGC DA
<h4>Natural Resources</h4>				
Collaboard US\$1.5 billion financing of Chilean copper deposit	Auction public offer	WORLDWIDE A\$1.2 billion acquisition by Hovensa Mining Corporation	GSM A\$350 million merger with Ashanti Goldfield	
<h4>Utilities</h4>				
Scandinavian \$1.7 billion acquisition by Swedish Power	WATER \$2.8 billion acquisition of Northumbrian Water	SWALEC \$2.9 billion acquisition by Welsh Water	Indotropa S.A. Sale of Peruvian Electricity Assets	
<h4>Telecoms</h4>				
BT Proposed merger with MCI	DT DM20 billion international offering	Telefonos Proposed Telefonos de Espana international offering	TELECOM Analysis of privatisation options	
<h4>Reorganisations</h4>				
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WestLB

NEWS: EUROPE

Prodi in deal with dairy farmers

By Paul Botts in Milan

The Italian government yesterday rushed through a package of measures to support the milk sector in an effort to quell two weeks of protests by dairy farmers.

The measures were announced on the eve of today's deadline for payment of European Union fines totalling £370m (\$233m) by Italian farmers who breached milk quotas in 1995-96.

The government is to set up a special commission to investigate the application of milk quotas in Italy. It will also grant milk farmers soft loans with 2.8 per cent interest to help them pay the fines, as well as financial incentives to cut cattle.

More significantly, the government said farmers would have to pay only 25 per cent of their fines immediately with the balance after the commission has reported back to the government in 50 days. However, this proposal has yet to be approved by the EU agricultural authorities and could lead to tensions between Brussels and Rome.

Mr Romano Prodi, the prime minister, yesterday appealed to farmers to lift their road blockades, which have caused problems at Milan's Linate airport and Venice airport. He insisted that the government could not pay the fines as it has done in past years because of EU rules. But he added his government would seek an increase in Italy's annual milk quota of 9.8m tonnes since the country imports at present more than 6m tonnes.

The farmers, particularly in the north where overproduction is highest, have been backed by the separatist Northern League movement, which is using the protests to try to regain political momentum.

Mr Umberto Bossi, the League's president, has even gone as far as offering to send his "green shirt" troops to help farmers who have been forced by the police to end their airport blockades. At Linate airport there were angry scenes this week between farmers and police.

Alitalia, the Italian airline, has demanded compensation from farming organisations for losses in passengers and revenue. It said the protests were costing it around £1m a day in lost revenues.

● The Italian cabinet yesterday approved draft legislation to reform the system of bank ownership through foundations in order to speed the process of privatisation, writes Robert Graham in Rome.

Once endorsed by parliament, the government will have 90 days to redraw the legal and fiscal status of bank foundations to make it easier for them to sell their stakes in the banks themselves. By offering big tax breaks for selling their bank stakes, the aim is to turn the foundations into on-profit-making institutions involved mainly in social projects.

The foundations were created at the beginning of the 1990s as an interim measure to allow the banking system, largely in the control of the public sector, to be modernised and freed of political control. However, the foundations have proven to be a block on privatisation, since their generally unanswerable political appointees have continued to control the banks at arm's length.

Secondly, excessively favourable tax regimes can encourage "hedgehog-thy-neighbor" policies which deprive governments of revenue.

Spain yesterday pressed home its ambitions to be in the first wave of European economic and monetary union members. But at a meeting in Bonn of the two countries' leaders, Mr José María Aznar, Spanish prime minister, was given no encouragement that the entry rules would be fudged.

Germany Chancellor Helmut Kohl said decisions on which countries would join the single currency on the planned January 1999 start date would be taken in spring next year - and in

Court rejects 19 out of 30 proposals ■ Political parties welcome decision

Italy trims referendums plan

By Robert Graham in Rome

Italy's constitutional court yesterday rejected 19 out of 30 proposals for referendums, including one abolishing the residual element of proportional representation in the electoral system.

The decision was greeted with relief by the main political parties. If the abolition of the remaining 25 per cent proportional representation had been accepted, it would have interfered with the work of the constitutional reform commission.

The court also threw out

the two most controversial referendums - one to liberalise "soft" drugs such as marijuana and the other to demilitarise the Guardia di Finanza, the financial police. But it passed a referendum proposing an end to the practice of the treasury holding a "golden share" in privatised companies.

Mr Marco Pannella, the indefatigable Radical leader who in 1974 initiated the referendum as a means of social and political reform,

reacted angrily, claiming citizens' rights were being ignored. He accused the court of riding roughshod over 12m Italians who had signed petitions for the reforms.

Mr Pannella's reformist movement last year collected signatures for 18 of the referendums admitted for consideration by the constitutional court. The remaining 12 were organised by a group of regional governments. Of those admitted yesterday, six were sponsored by Mr Pannella's movement and the rest by regions.

The court had been under pressure to take a stand on the number of proposals submitted, after criticism that 30 separate issues to be voted on the same day was abuse of the electorate. The previous record was 12 separate issues in 1995.

The electoral turn-out in referendums has been declining, with only 57 per cent of the electorate voting in 1995 compared with 76 per cent two years previously.

Those referendums admitted are likely to be voted on in spring. The most controversial is likely to be that

seeking to abolish the powerful order of journalists which operates a closed shop on the profession. The most heated social issue is likely to be the proposal to curtail the vociferous hunting lobby by barring hunters from private property without the owner's permission.

Even if the referendums are approved, there is no guarantee the spirit of the proposals will be respected. The referendums only abolish existing laws. It is then up to parliament to introduce replacement legislation.

France approves plan to compensate Nazi victims

By Andrew Jack in Paris and Norma Cohen in London

The French government has given approval in principle to compensating victims of Nazi persecution using money which is distributed by the Tripartite Commission on Monetary Gold, the body set up to manage gold seized from Nazi coffers after the second world war.

The Elysée confirmed last night that it had agreed to proposals from Rabbi Abraham Cooper of the Simon Wiesenthal Centre to modify the system by which the commission in the post-war years has distributed gold in compensation to countries.

He has called for the remaining 5.5 tonnes held by the commission to be distributed to individual Jewish and non-Jewish victims of the war, not to national governments in accordance with its existing practice.

The news came on the day that the

Tripartite Commission met in Brussels to consider growing pressure to change the 1946 agreement which is governed jointly by the UK, France and the US. Rabbi Cooper indicated that the UK had already given its support for his proposals in the past few days and next week would seek a formal commitment from President Bill Clinton, whose aides have already indicated their support. "It's two down and one to go after today," he said.

The French decision comes after Mr Alain Juppé, France's prime minister, said last Saturday he would set up a commission to consider the assets appropriated from Jews under the Vichy regime during the war.

Rabbi Cooper said France had a claim for 2 tonnes of the remaining gold held by the commission, which it believed should be earmarked for individual victims, although a final decision would have to be taken by the ministry of foreign affairs and the min-

istry of economics and finance. International experts have advised Britain that even if some of the gold held by the commission came from individual victims, the claims of the various central banks could be ignored.

The commission would therefore have to seek permission from claimant nations to forgo their share. Alternatively, claimant nations could be persuaded themselves to distribute a portion of the gold to Jewish and non-Jewish Nazi victims.

The Elysée was more reticent about Rabbi Cooper's other demand, that the commission open its archives - which under present rules remain sealed until 2031 - to an independent group of researchers to examine the conditions by which money has been handed out in the past. The Elysée said it was willing to open its own archives in the search for assets, and suggested access to the commission's records should be "resolvable".

Brussels may face 'mad cow' censure

By Neil Buckley and Caroline Southey in Brussels

The European Commission could face a censure motion in the European Parliament next month unless it accepts the conclusions of the parliamentary inquiry into the "mad cow" crisis and guarantees rapid reforms.

Mr Reimer Böge, chairman of parliament's BSE inquiry committee, said attitudes were hardening among inquiry members and other MEPs as the Commission continued to deny charges it had mishandled the affair.

MEPs were angered by the attitude of Mr Jacques Santer, commission president, when he appeared before the inquiry this month. Mr Santer refused accusations in the committee's draft report that the Commission put the interests of the beef industry above human health.

Mr Böge said parliament's tactics would hinge on the Commission's immediate response to the inquiry's final report, when it was presented to parliament in Strasbourg on February 19.

If the Commission responded "sufficiently positively," it would be given six months to implement reforms, including separating responsibility for agriculture and consumer matters, setting up a food safety agency, and reorganising scientific committees. If it failed to implement the reforms within the deadline, MEPs would push for a censure motion.

Mr Böge said the response had to include acceptance of responsibility for errors. If the Brussels executive's initial reaction to the report was negative, MEPs would "demand an immediate censure". He was confident of getting the 63 signatures required. "We want a clear signal the commission will co-operate with the parliament, with changes as recommended by the inquiry," Mr Böge said.

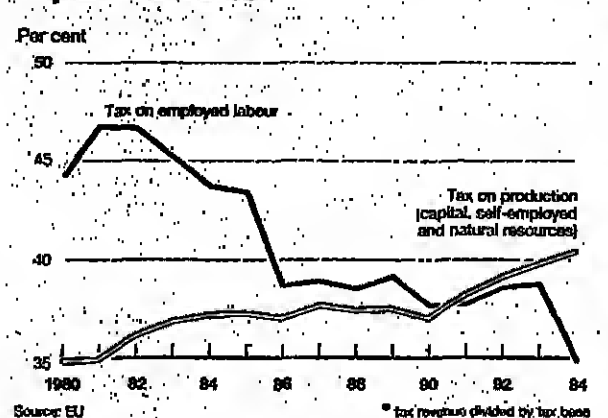
A censure motion, which if it gained the necessary two-thirds majority would force all 20 commissioners to resign, is parliament's ultimate sanction. Such a motion has been tabled several times, but always withdrawn or defeated.

The dominant Socialist group, with 215 of 626 MEPs, this week narrowly supported the idea of a "conditional" censure motion against the Commission, demanding action within a certain period. But it rejected immediate censure.

Separately, Mr André Laignel, a French Socialist inquiry member, is calling for the UK to reimburse the EU for the £61.64m (£2m) spent out of the Union budget last year on dealing with the beef crisis. This "would reflect" the inquiry's conclusion that the UK, not the Commission, bore primary responsibility for the crisis.

Lionel Barber

Implicit tax rates*



Source: EU

ous tax breaks to attract foreign investment, and Luxembourg (though Mr Jean-Claude Juncker, prime minister, made clear again this week that the Grand Duchy is willing to phase out withholding tax exemptions as part of a far broader fiscal package).

Mr Monti believes the single market is one of his greatest weapons in the coming debate. Next month, the Commission intends to bring forward a draft directive on taxation of energy products next month. But the real test of political will is the proposal for a new common VAT regime which is blocked in the Council of Ministers.

Some colleagues are unhappy about Mr Monti's easy-as-shegoes approach to tax reform. Mr Yves-Thibault de Silguy, the French commissioner for monetary affairs and the man charged with selling the single currency to the European public, is trying to force the pace.

Mr de Silguy suspects that countries in the future Emu bloc will willy-nilly move toward greater fiscal harmonisation. Some economists disagree, arguing that countries who renounce control over their monetary and exchange rate policy will continue to need tax flexibility. Mr de Silguy believes that there is a need to define the rules of the post-Emu game.

A fortnight ago, he announced a study into

whether countries in the planned single currency zone could co-operate more closely on tax and social security. He noted that the review would form part of the debate in the EU's intergovernmental conference (IGC) on "flexibility", whereby some countries can press ahead with integration without being held back by others.

As Mr Monti quickly recognised, Mr de Silguy's Emu-led approach undercut his own effort to reform taxation policy within the confines of unanimity. It also risked scaring off countries such as the UK or Italy who seem unlikely to be among the founder members of Emu.

A further obstacle is that Maastricht stipulates that countries which take part in Emu cannot raise extra barriers against those outside who want to join the single currency at a later date - unless of course the Emu participants act outside the EU treaty.

Thus, the new debate on EU tax policy mirrors the wider discussion on how far Emu will act as a catalyst for integration among 15 or more members, or among an elite advance guard led by the French and Germans. Mr Monti, conscious of Italy's role as a founder EU member, intends to make his voice heard in the coming months.

Lionel Barber

Spain presses home ambitions on Emu

By Ralph Atkins and Peter Norman in Bonn

Spain yesterday pressed home its ambitions to be in the first wave of European economic and monetary union members. But at a meeting in Bonn of the two countries' leaders, Mr José María Aznar, Spanish prime minister, was given no encouragement that the entry rules would be fudged.

Germany Chancellor Helmut Kohl said decisions on which countries would join the single currency on the planned January 1999 start date would be taken in spring next year - and in

line with criteria set out in the Maastricht treaty. He followed "with great sympathy", however, the efforts Spain was making to qualify for Emu and in all areas of European policy.

His comments came amid strong pressure from German industry and Mr Kohl's political allies in Bonn to insist entry had to be strictly by the rule book. Mr Aznar said Spain had a "good hope" of meeting the criteria and there was no possibility of reversing the country's policies of discipline, rigour and deficit control.

The Spanish prime minister's enthusiasm for Emu,

however, has raised German fears Spain may come close to fulfilling the requirements and put Bonn in a dilemma. If any country is given special favours it would be politically difficult to persuade a sceptical German public to accept Emu and keep out nations such as Italy, which are keen to join but will not precisely meet the Maastricht terms.

"There is no choice. There is no way out. There has to be a very strict position on the criteria," said Mr Christian Schmidt, foreign affairs spokesman for the Christian Social Union's parliamentary group, sister party of Mr

Kohl's Christian Democratic Union. That would in turn put pressure on the Bonn government: "We have ourselves problems fulfilling the requirements, and we will have to make tremendous efforts in the budget year 1997," Mr Schmidt said.

Germany has been stressing that the long-term stability of economic and monetary union is paramount, reflecting German worries that the euro will be less resilient than the D-Mark.

Mr Rodrigo de Rato, Spain's economics and finance minister, forecast Spain's public sector deficit would fall to 3 per cent of

GDP this year - exactly in line with the maximum allowed under Emu rules - and the ratio of debt to GDP "will be falling towards the 60 per cent Maastricht limit".

However he risked exacerbating Germany's concern by judging Portugal's membership of the first wave of single currency members "a good bet". That heightened the prospect of Germany having to accept monetary union containing as initial members a swathe of southern European countries - or delaying it until sufficient members meet the criteria to the letter.

EUROPEAN NEWS DIGEST

New trial for Berlusconi

A year-long corruption trial of Mr Silvio Berlusconi, former Italian prime minister, was declared null and void yesterday and will start again from scratch.

The trial of Mr Berlusconi and others was thrown into disarray earlier this month when Judge Carlo Crivelli stepped down in a row over allegations of bias.

The Milan court president, Mr Filippo Lo Turco, said he had accepted Mr Crivelli's request to withdraw from the trial, which he ruled will now re-start on February 5 under a new presiding judge, Ms Francesca Manca. Mr Berlusconi, who leads the opposition centre-right Freedom Alliance, has denied charges that he and others in his Fininvest business empire paid bribes to tax inspectors between 1989 and 1991 to obtain favourable audits of company books.

Mr Crivelli's resignation followed an attempt by Mr Berlusconi, his brother Paolo and two other defendants last October to have him removed from the bench on grounds of partiality.

Their application was based on a private exchange between Mr Crivelli and a prosecutor in which the judge spoke of a "carrot and stick" approach to the trial. An appeal court rejected the suit but ruled the remark showed a "serious lapse of style". *Reuters, Milan*

Telecoms probe extended

The European Commission confirmed last night that it would extend its investigation into the proposed merger between British Telecommunications and MCI for four more months.

The inquiry into the impact on competition of the \$20bn deal will focus in particular on whether the tie-up will damage competitors on the UK-US route by cutting their revenues. It will also examine whether the new merged company could divert US-European traffic through the UK in a way not open to its European competitors, and whether it would affect the availability of transatlantic cable capacity to new entrants.

The Commission also said the impact of the merger on the teleconferencing market would have to be scrutinised, given the size of the companies. *Emma Tucker, Brussels*

Paris firm on nuclear role

The French government yesterday denied any change in its nuclear doctrine after Mr Volker Rühe, Germany's defence minister, claimed that France had "for the first time" accepted the "decisive" nature of Nato's US nuclear deterrent.

The controversy centred on the statement in last month's Franco-German defence paper that "the supreme guarantee" of the alliance's security is its "nuclear forces, in particular those of the US", to which "the independent forces of the United Kingdom and France, which fulfil a deterrent role of their own, contribute".

French opposition parties accused President Jacques Chirac of kowtowing to the US. The row is likely to increase the pressure on Mr Chirac to win concessions from the US on Europeanising Nato commands in time for the Nato summit in July.

French ministers and officials scrambled yesterday to contradict Mr Rühe's claim, saying France had signed similar Nato declarations as long ago as 1974 and as recently as 1991. *David Buchan, Paris*

French confidence rising

French business confidence appears to have picked up sharply this month, in a development that will come as a relief to the hard-pressed government.

The monthly industrial survey conducted in January by Insee, the national statistics institute, and published yesterday, indicated that, while recent output levels had been weak, expectations of future French industrial production volumes had turned markedly higher.

The survey appears to provide some justification for the relatively upbeat assessment of the country's economic prospects in 1997 recently given by some ministers. Mr Jean Arthuis, finance minister, recently said his previous prediction of 2.3 per cent growth should be "considered as a minimum". Yesterday's survey findings appeared as the Bank of France announced it was shaving another 0.05 percentage points from its intervention rate, reducing it to 3.10 per cent. The rate had been unchanged since last month. *David Owen, Paris*

Strike disrupts trains

French railways were severely disrupted yesterday as many rail workers held a one-day strike in protest at the creation of a rail track company which they believe will lead to job losses.

The SNCF state rail company said around a third of its 180,000 workforce responded to the strike call, which coincided with parliamentary debate on the government bill to hive off FF135bn (\$34.4bn) of SNCF debt into a new infrastructure company to be known as Réseau Ferré de France (RFF). Though traffic was unaffected on Eurostar lines to London and Brussels, other services were one to two thirds of normal levels. *David Buchan, Paris*

Irish wage pact backed

Irish trade unions yesterday voted to back a new three-year wage pact, which envisages increases of 9.25 per cent over that period for public and private sector workers, and tax reductions of £11m (\$16m).

The Irish Congress of Trade Unions, the umbrella organisation for public and private sector unions, voted by 217 to 134 to support Partnership 2000, which was initiated before Christmas by the government, the unions, industry and farmers.

The latest deal is based on an inflation target of just over 2 per cent over each of the next three years - within the criteria for participation in the European single currency. The Irish Business and Employers Confederation this week endorsed the deal, which it said gave reasonable pay increases while protecting industry's competitiveness. *John Murray Brown, Dublin*

ECONOMIC WATCH

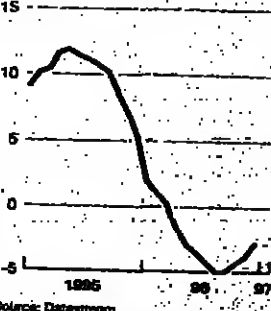
Swedish producer prices up

Swedish producer prices rose 0.3 per cent in December, although the annual price trend remained negative. On an annualised basis, producer prices fell 2.7 per cent, reflecting a deflationary price trend increasingly apparent in the final few months of the year.

Statistics Sweden said import prices rose 1.3 per cent in December, partly because of higher prices of chemicals and chemical products. A 0.6 per cent rise in export prices was ascribed to increased prices of electrical and optical goods, and of petroleum products. Prices of Swedish produced goods for the home market were unchanged in December and fell 1.1 per cent year-on-year. The rises in import and export prices were on average 0.2 points ahead of market expectations. *Greg McIvor, Stockholm*

Sweden-producer prices

Annual % change in PPI



Source: Statistics Sweden

Package conditional on Bulgaria ending political crisis Brussels offers Sofia aid

By Lionel Barber in Brussels and
Anthony Robinson in London

The European Commission yesterday offered Bulgaria a "substantial" financial aid package on condition its leaders resolve the political crisis which has brought the former communist country to the brink of default on its external debt.

The Commission offer followed an appeal for assistance from Mr Petar Stoyanov, the newly installed Bulgarian president, who was in Brussels for talks with EU and Nato officials.

Unofficial estimates suggest that up to \$500m could be raised among the Group of 24 countries involving the EU, US, Japan and other advanced industrial economies.

But neither the EU nor the US plans an international aid effort until Bulgaria's political parties agree on early elections and lay the basis for an economic stabilisation plan backed by the International Monetary Fund.

Post-communist Bulgaria has already received more than \$300m in balance-of-payments assistance from the EU, and around \$240m from the Phare fund for restructuring the economy.

Bulgaria is one of 10 east European countries that have applied for EU membership but is considered an "exceptional case". Commission officials discussed extra aid through the Phare programme to compensate for its likely absence from the first wave of new members.

Mr Hans van den Broek, the EU's external relations commissioner, said political parties in Bulgaria had to create conditions where economic reforms would succeed. "We must create calm and confidence in the international financial community," it was vital Bulgaria saw "eye to eye" with the IMF.

Mr Stoyanov, on his first visit to the west since assuming the presidency, warned that Bulgaria faced financial collapse and might have to default on debt repayments due later this year.

The country had not received proper recognition for its sacrifices in complying with international economic embargoes against former Yugoslavia and Iraq, he added.

The visit took place against the background of continuing strikes and demonstrations in many Bulgarian cities and a further collapse in the lev, which closed last night at 1,530 to the dollar, a loss of 50 per cent in a week.

Discounted Brady bonds also dropped sharply as the market digested the Socialist party's insistence on trying to form a government and the president's remark that default was a possibility.

The markets see Bulgaria as racing against time. Traders fear time wasted forming a probably short-lived Socialist government could make it impossible to introduce the IMF-supported currency board which is needed to attract foreign financial aid and boost reserves before the next \$135m Brady bond payment deadline in July.

Crisis in Czech health service

By Vincent Boland in Prague

A financial crisis gripping the Czech Republic's state health service was starkly exposed this week when the country's two biggest public hospitals were forced to seek protection from creditors owed large sums in unpaid drug bills.

The two hospitals, the General Medical Faculty and the Motol Faculty hospital, both in Prague, owe an estimated Kc 1bn (\$36m) to pharmaceutical companies but are unable to pay them because the charges they levy on health insurance companies - which pay the medical bills of patients - do not cover running costs.

The hospitals have been given a three-month stay of execution while they try to straighten out their finances. Mr Jan Stráský, health minister, refused to pay off their debt and blamed hospital

management for failing to control costs or keep proper accounts.

They are to be put under ministerial scrutiny while they sort out their finances, prescriptions and medical procedures will be limited, and new investment will be frozen. Mr Stráský indicated the government might then consider providing financial relief, which hospital administrators have been demanding for some time.

The hospitals' plight is the latest sign of mounting problems within the public health service, in a country where time off to visit one's doctor is as sacred a right as holiday leave. Other hospitals are thought to owe an additional Kc 3.5bn to pharmaceutical companies.

The medical insurance system, under which employees and employers pay a combined 13.5 per cent contribution, is unable to cope with

rising costs under a fee-for-service billing system that rewards hospitals in proportion to the number of patients treated. In addition the government spends about 8 per cent of gross domestic product on the health service.

The system is undergoing a severe rationalisation following the bankruptcy of several of the insurance companies. There is general agreement that the service's most acute problem is overcapacity. The Czech Republic has one of the highest rates of physicians to patients in the world, estimated at one for every 97 people in 1992, compared to one for every 150 in Germany and 1 for every 336 people in France.

Doctors are also among the lowest paid workers, some making as little as Kc 5,000 (\$180) a month. The average Czech wage is about Kc 9,200 a month. Demands for higher pay have been rejected while a thorough review of the health service is undertaken with the aim of slashing the number of beds and employees, but so far no long-term strategy has been forthcoming.

The government is also under budgetary pressure to restrain public sector wages and is this week facing down a strike by teachers also unhappy with wage levels.

Parts of the health service have been privatised, but many people cannot afford the high charges levied by new private clinics, and there is so far little emphasis on the promotion of better health. The cost of drugs has also soared, with claims by the country's pharmaceutical industry that many hospitals favour expensive western medicines over cheaper, and equally effective, locally produced drugs.

Ukraine tilting westward

Kiev is emerging as a potential ally as Nato mulls expansion - but how will Russia react? Matthew Kaminski reports

As the cherry blossoms emerged in the spring of 1994, Washington gave an upstart Ukrainian politician a cold welcome.

Mr Leonid Kuchma, a defeated politician on a shoe-string budget, found it hard to get an audience. The White House ruled out a meeting with the president and farmed him out to the Pentagon, where junior aides grilled the former prime minister about his views on Ukraine's commitment to give up its nuclear arsenal.

However, Vice President Al Gore did make time to see him and when Mr Kuchma surprisingly won his country's presidency three months later, Mr Gore was his first foreign visitor, advising him how to handle Ukraine could put his house in order and pledging US support. Ukraine became a US priority and the warm relationship between the two countries led to a change in the strategic outlook for eastern Europe.

Last year Ukraine overtook Russia to become the third largest recipient of US foreign assistance, after Egypt and Israel.

With a population of 52m, Ukraine is emerging as a potential western ally just as Nato is planning how to move eastward without inviting a harsh Russian reaction. Ukraine, to borrow from a recent book title, may be "the keystone in the arch" in this process.

Mr Zbigniew Brzezinski, the former national security adviser who has helped change US policy toward Ukraine, believes an economically revived and sovereign Ukraine reduces the chance that Russia could again become a great power. The stakes were raised earlier this month when Russian president Boris Yeltsin called for a referendum on unification with Belarus, which was interpreted as a response to Nato expansion. Belarus borders Poland, which wants to join Nato. "Our ties with Ukraine are

rooted in our vital interest in the emergence of a stable central and eastern Europe well beyond the borders of Nato," said Mr Sherman Garrett, a former US deputy under-secretary of defence.

Mr Kuchma, say US officials, has vindicated their support. Basic, if flawed, economic reforms have ended hyperinflation. Ukraine's nuclear missiles are gone and Kiev has ratified the Nuclear Non-Proliferation Treaty. The threat of conflict in the Crimean peninsula, Ukrainian territory with a majority Russian population, has partly receded since Mr Kuchma cracked down on local separatists.

The US focus remains on improving the country's economy as a guarantee of its viability as an independent state. The US Treasury last month helped put together \$3.5bn in foreign aid pledged for 1997. Its lobbying at the International Monetary Fund goes a long way too. "It is a major commitment

of US interest and support for re-vigorating reform," said a senior US official. The US envisages three more years of foreign support, after which Ukraine should manage its finances alone.

The friendly welcome its leaders receive in Washington has tilted Ukraine's foreign outlook distinctly westward. Mr Hennady Udovenko, foreign minister, calls the US his country's "strategic partner". Mr Volodymyr Horbulin, security council chief, said this month in Brussels that he would like to see Ukraine in Nato by 2010.

Mr Kuchma, in Poland last week, reiterated that Ukraine seeks "integration" with central and western Europe, short of membership in its select institutions.

Until last year Kiev adopted a neutral line, balancing Russia and the west. Mr Kuchma used to call Russia Ukraine's natural ally. Developments in Russia



Friendly relations: President and Mrs Clinton wave to crowds in Kiev on a 1995 visit

have changed that: the strong showing of nationalist-communist candidates in the 1996 Duma elections and the recent uncertainty about Mr Yeltsin's health make Kiev all the more anxious for US support.

Two politicians currently riding high in the Russian polls, Mr Alexander Lebed, former national security chief, and the Moscow mayor, Mr Yuri Luzhkov, say Russia should retake Sevastopol, the port city in Crimea, which was transferred from Russia

to Ukraine in 1954. The Russian government disavows any territorial claims, but the Slavic neighbours are deadlocked over the terms for dividing the Black Sea Fleet, based in Sevastopol. The Kremlin wants a long-term exclusive lease in Sevastopol and blames Ukraine for continually changing the terms. For its part, Kiev wants the base shared by the two fleets.

"The settlement of this issue would benefit us both by removing the greatest irritant in our relations," said Mr Konstantin Hrischenko, Ukraine's deputy foreign minister. "It's a real test of Russia's ability to take a civilised approach towards its neighbours."

But some Ukrainian officials privately believe Russia is avoiding a solution because a continuing open dispute gives the Kremlin greater leverage. Western officials make it clear that relations with Russia must improve if Ukraine's relations with the west are to develop.

Mr Garnett, who believes the "positive" US-Ukraine partnership has not been fully tested, points out other potential hurdles. One concerns the extent of US commitment to Ukraine. Mr Hrischenko thinks that "the role of the US is invaluable." But in making Ukraine feel more secure, how far Washington would go to guarantee it in the face of direct Russian economic or military pressure is an open question.

US is Kiev's chief strategic partner, says foreign minister Hennady Udovenko

The slow pace of internal reform in Ukraine could undermine Washington's support. The US now bitterly complains that its multinationals are being maltreated by an ungrateful government.

These concerns go to the heart of what kind of state the new Ukraine will turn out to be and whether it is one that Washington - and Congress - can work with in the long run.

NEWS: DAVOS SUMMIT

Global view looks bright and clear from Davos

Either Dr Pangloss, Voltaire's incurable optimist, has been reincarnated, or the world really has changed for the better. So it seems from the largely upbeat forecasts of global political and economic trends in the coming year, made at yesterday's opening session of the World Economic Forum in Davos.

The overall message from two panels of experts was that there are no obvious big military conflicts on the horizon, that the world economy is set to continue growing at a healthy pace, and that there are unlikely to be any seriously disruptive shocks to international financial markets.

Some of the speakers were positively ebullient. Mr Noordin Sopiee, director of

Malaysia's Institute of Strategic and International Studies, said that "for the first time in human history, the whole south-east Asian region is at one and at peace" - a condition he appeared to regard as permanent.

Even the prognosis for the Middle East was relatively positive. Professor Ibrahim Karawan, of Britain's International Institute for Strategic Studies, saw the region "muddling through" the next year with no big peace

breakthrough or serious armed conflict. One reason was that wars had simply become too expensive.

On the economic front, Mr Ken Courtis of Deutsche Bank Capital Markets summed up the nicely-balanced state of the business cycle as "the Goldilocks recovery goes global". Mr Horst Siebert of Germany's Kiel Institute predicted that the world economy would expand by a brisk 4 per cent this year, with industrialised countries steaming along

Equity investments in emerging markets are set to reach a record level this year as international investors diversify their portfolios and take advantage of privatisation programmes. Robert Chote writes. The Institute of International

nicely and south east Asia returning to boom-time conditions.

Central to this favourable outlook was the likelihood of continued steady growth in the US, with low unemployment, subdued inflation and a buoyant equity market.

Dr Fred Bergsten of the Washington-based Institute for International Economics, further stoked the optimism by forecasting an early deal between President Bill Clinton and the Republican-controlled Congress to eliminate

the US budget deficit over five years. That could substantially lower US interest rates, stimulating bigger flows of private capital into fast-growing emerging markets.

There were, of course, qualifications. Mr John Rieley, president of the Chicago Council on Foreign Relations, warned that job insecurity among US white-collar workers was eroding the traditional underpinnings of an open internationalist policy and

risks turning the country protectionist. Mr Siebert warned that France and Germany seemed politically incapable of the actions needed to cut their high unemployment rates, and still differed fundamentally on how far politicians should influence monetary policy once there was a single European currency.

Casting optimism momentarily aside, Mr Courtis shook the audience by suggesting that the oil price might reach \$30 a barrel by the end of the year - though none of his fellow panellists seemed to share his concern.

Perhaps the most striking barometer of the mood were the problems and fears the panellists failed to mention. Conspicuous omissions were the possibility of a severe Wall Street correction and a meltdown of Japan's banking system.

On the political front, the panellists' opening presentations ignored entirely a list of existing and potential trouble-spots, including North Korea, Taiwan, Kashmir, Zaire - indeed, the whole of sub-Saharan Africa. Even Russia rated only a passing mention.

At a gathering whose organisers pride themselves on assembling an international Who's Who of politics and business, the new and missing names on the list of Davos participants offer some interesting clues about who's up and who's out in the hierarchy of the rich and powerful, writes Guy de Jonquieres.

Among this year's heavyweight newcomers are Benjamin Netanyahu, Israel's prime minister, Jack Welch, chairman of General Electric, and Jack Smith, chairman of General Motors. The General Jacks are considered particularly big catches, because their companies declined for years to send their top brass to Davos.

There was nothing personal to it, apparently. Just scheduling difficulties. GE has for years sponsored a US golf tournament around this time of the year, while at GM the problem has been the need to attend a regular board meeting.

But deft diplomacy has prevailed, and the two companies have agreed to adjust their timetables. Perhaps the offer of a place of honour on the first day's platform had something to do with Welch's decision to turn up.

Among the conspicuous absentees is Carlo De Benedetti, honorary chairman of Olivetti. A regular attendant until now, why did he not show this year? The official reason is that Olivetti is already well represented. A less charitable explanation, given by someone involved in issuing invitations, is that "Davos is for leaders of the future".

A still more tantalising question is whether General Alexander Lebed, the aspiring Russian strongman, will put in an appearance. He has made no secret of wanting to come but has been strongly discouraged by the organisers, who fear his presence would embarrass Mr Victor Chernomyrdin, the Russian prime minister, who is on his third visit.

Born to rule or rebel? It's just a birthright

If your chief executive is a dictator, the likelihood is that he or she was a first-born child.

Children with older siblings are far more likely to turn into chief executives prepared to be more generous with executive share options and willing to take big risks to save a company from bankruptcy.

This is the view, at least, of Mr Frank Sulloway, a Massachusetts Institute of Technology research scholar famed for his argument that the order of birth is the most reliable indicator of openness to social change and innovation.

Presenting his findings at Davos yesterday, he said first-born chief executives were more inclined to aggressive strategies and vindictiveness. They were more likely to turn into dictators and terrorists than late-borns who identified more with the social underdog and tended to be more liberal and rebellious.

First-born CEOs tended to be bossy and defensive and conscious of the need to "defend their turf". Late-borns were less assertive but, if they rose to the top,

were more prepared to embrace radical decisions than their older siblings.

Perhaps the most interesting finding in his recent book, *Born to Rebel*, is that eldest children support the status quo and the youngest rebel against it. First-borns are typically tough-minded conservatives who espouse the values and beliefs of their parents. Late-borns tend to be more liberal and open to innovation.

Mr Newt Gingrich, Republican Speaker of the US House of Representatives and a first-born child, has a younger sister who, as a Democrat, admits she would never vote for her brother.

Mr Sulloway's research on the impact of birth order on the behaviour of corporate executives is at an early stage, but he has plenty of historical evidence to support his theories. During the Protestant Reformation, late-borns were 46 times more likely than first-borns to be burnt at the stake. The fate of each of Henry VIII's six wives is predictable by birth order: the later her birth rank the more likely she was to lose her head.

During the civil rights movements in the US, the overwhelming majority of activists and supporters were late-borns. In politics, first-borns tend to prosper in times of crisis. Franklin Roosevelt, Churchill, Mussolini and Stalin were all first-borns. Hitler, though not technically a first-born, was his mother's first surviving child.

If the late President Dwight Eisenhower had had the advantage of Mr Sulloway's research he would not have had such a problem with Earl Warren, chief justice of the US supreme court. As a Republican governor of California, Warren appeared to share Eisenhower's conservative beliefs when he was appointed in 1953. However, he had a change of heart which led to the US adopting a series of liberal laws.

Eisenhower later admitted that Warren's appointment was the "biggest damn fool thing I ever did". If Eisenhower had realised that Warren was a second-born child, he could have saved himself a lot of trouble, says Mr Sulloway.

William Hall

Swiss hopes rise for early end to dispute over wartime role

Hopes of an early settlement of the row over Switzerland's wartime dealings with Nazi Germany rose yesterday as it became clear that Mr Benjamin Netanyahu, the Israeli prime minister, would use the Davos forum to meet Mr Arnold Koller, Switzerland's president.

The two are attending the meeting amid signs that strenuous efforts are under way behind the scenes to defuse a dispute which is doing serious damage to Switzerland's image abroad and risks harming Swiss banks' international business.

Mr Stuart Eizenstat, the US administration official in charge of property restitution in Central Europe, will be in Davos along with Mr Malcolm Rifkind, the British foreign minister, whose departmental report into Nazi Gold last year suggested that up to 90 per cent of gold looted by the Nazis could still be in Switzerland.

Although Mr Eizenstat and Mr Rifkind are not directly involved in the dispute, they are known to be keen to help resolve an increasingly acrimonious



UN chief Kofi Annan in Geneva yesterday on way to Davos

row which is threatening to disrupt the work of the special committee, headed by Mr Paul Volcker, the ex-Federal Reserve chairman, which is investigating dormant Swiss bank accounts.

That committee meets in Zurich today and there are signs that its ability to agree a common approach is being frustrated by the increasingly hostile comments of its Jewish members.

Switzerland has been trying for more than a year to rebut allegations that it helped finance the Nazi war machine, and that its banks

profited from the dormant bank accounts of Holocaust victims. However, its efforts suffered a serious setback last month when Mr Jean-Pascal Delamuraz, the economics minister, accused Jewish organisations of trying to blackmail Switzerland by demanding a SF250m (\$180m) compensation fund for Holocaust survivors.

Since then, the Swiss government has dropped opposition to a fund, but is keen to stress it should be seen as a goodwill gesture rather than an admission of guilt before the facts are known.

William Hall

Alpine assembly's ups and downs

At a gathering whose organisers pride themselves on assembling an international Who's Who of politics and business, the new and missing names on the list of Davos participants offer some interesting clues about who's up and who's out in the hierarchy of the rich and powerful, writes Guy de Jonquieres.

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Indian takeover code threatens cosy club

By Tony Tassell in Bombay

A new landmark takeover code was unveiled in India yesterday, exposing the country's dominant family-owned industrial houses to the prospect of predatory raids for the first time.

The long-awaited code, which will provide a clearer regulatory framework for mergers and acquisitions, could transform India's corporate landscape. "Some companies are going to feel very vulnerable," says Mr R.P. Goenka, patriarch of the RPG group of companies and one of India's few successful takeover exponents.

The code was one of a number of reforms of the Indian capital market announced yesterday by the Securities and Exchange Board of India, the industry regulator. Mr Devendra Mehta, chairman of the board, said it was the most important reform of the capital market since economic liberalisation began in the country in the early 1990s.

The board announced several other measures to help

boost India's debt and equity market. It will permit mutual funds set up by foreign investment institutions to invest in Indian debt instruments. Three foreign funds have already been allowed to operate in the country. The regulator said it would allow registered foreign institutions to invest in Indian equities on a proprietary basis and cleared the way for stock lending to proceed on a formal basis.

Under the new code, shareholders will be required to make a mandatory bid for at least 20 per cent of a company if their stake exceeds 10 per cent. Similarly, parties which initiate a change in control of a company would also have to launch an offer for the same amount.

Conditional bids will be allowed but must be subject to a minimum mandatory acceptance of 20 per cent or 50 per cent of the bid amount must be deposited with an escrow account.

Mr Rajiv Gupta, head of mergers and acquisitions at brokers DSP-Merrill Lynch, said the code was a "step in

The Indian government yesterday announced long-awaited tax incentives for the telecoms industry, putting it on an equal footing with other infrastructure sectors such as power, Lise Vaughan writes from New Delhi.

Telecoms companies will be eligible for tax holidays for up to five years, as well as concessional duty for equipment imports, the finance ministry said.

External borrowing limits for telecoms companies will be increased to 50 per cent of project cost, from 35 per cent. This is expected to benefit in particular basic phone providers, which have had more difficulty attracting investment than cellular providers because of lower returns and a longer gestation period, industry sources said.

Last year telecoms licences were awarded to private companies for basic telephone services, ending several decades of monopoly by the state-run provider.

Until now industrial houses have been able to retain control because of the obstacles put in the way of mergers and acquisitions. These included a plethora of legislative shackles, high stamp duties, a passive

approach by institutional investors to the way companies were run and a cultural bias against takeovers. "It is difficult to be a predator in this country," said Mr Ajay Piramal, who has made a string of aggressive takeovers in the pharmaceutical sector over the past 18 months through the corporate vehicle of Piramal Enterprises. "The Indian corporate sector is still run like a gentleman's club."

Few analysts expect the new code to bring an immediate surge in takeovers. Obstacles remain, such as a ban on bank financing of takeovers, and analysts say some regulations in the new code may still dampen activity. Others suggest the planned reform of the Companies Act will also have to be carried out before takeovers can really take off.

In the longer term, a rise in activity seems to be inevitable. "It may be a lengthy process but the number of takeovers is definitely going to rise," said Mr Venugopal Dhoot, chairman of the Videocon electronics group.

A consolidation of the corporate sector is also overdue. At last count, there were more than 7,300 listed companies in India plus a plethora of state-owned companies and innumerable privately owned firms. This compares with about 1,700 listed companies in Tokyo and 540 in Hong Kong.

The domestic investment institutions have also started showing signs of adopting a less passive attitude towards company management, a move which may encourage acceptance of takeovers.

Initially, most analysts expect smaller companies and joint ventures with multinationals to be the target of takeovers. The multinationals are likely to seek greater equity in the joint ventures as their operations are expanded.

Over the longer term, however, an increasing number of other companies are expected to come into play as they seek to raise funds for expansion, diluting the state of controlling shareholders.

Mr Chris Patten, Hong Kong governor, yesterday warned that ratification of a Beijing committee's proposal to water down Hong Kong civil liberties laws would wreck "enormous and irrevocable" damage on the territory. Speaking on the eve of meetings in Beijing to decide whether or not to adopt the proposals, Mr Patten said endorsement would undermine autonomy in Hong Kong, which reverts to Chinese sovereignty on July 1.

A sub-committee of the Beijing-appointed Preparatory Committee, which is overseeing China's handover arrangements, today begins its deliberation of the proposals, which have already received backing from Mr Tung Chee-hwa, Hong Kong's future leader, and the Xinhua news agency, Beijing's de facto embassy in the territory. *Louise Lucas, Hong Kong*

ASIA-PACIFIC NEWS DIGEST

Seoul 'will not bail out banks'

A senior presidential adviser yesterday warned that the South Korean government would not bail out the main creditor banks of the bankrupt Hanbo group, which borrowed almost \$6bn in loans. The central bank "cannot and will not provide special loans to Hanbo's creditor banks," said Mr Lee Suk-chae, senior presidential adviser for economic affairs. "The provision of soft loans is also impossible because it is not the government's job, but the banks, that are responsible for the loans to Hanbo."

Instead, the government is likely to promote bank mergers to solve possible bad loan problems resulting from the Hanbo collapse, while easing restrictions on bank operations. Korea First Bank has the greatest credit exposure to Hanbo, with almost Won1,000bn (\$1.29bn) in loans.

Meanwhile, South Korean prosecutors began questioning Mr Chung Tae-soo, owner of the bankrupt Hanbo group, on how he secured the huge bank loans for an ill-fated steel project despite the conglomerate's shaky finances. *John Burton, Seoul*

Patten warns over liberties
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Indonesian mob burns temple

A Moslem mob yesterday stoned and burned a Chinese temple and Christian churches in Rengasdengklok, about 50km from Jakarta. Reports said the rioting was sparked by a rumour that a trader of ethnic Chinese descent - a largely Christian minority - complained on the radio to pray for a mosque near his house was too loud. Riots provoked by ethnic and religious rivalries have plagued the island of Java in recent months. The unrest has highlighted divisions in Indonesian society where wealth is largely demarcated along ethnic and religious lines. The country's Chinese minority are widely resented for their disproportionate hold over Indonesia's private capital.

■ The World Bank is to support a \$118m project to bring solar power to rural households in Indonesia, believed to be the first solar homes initiative in the developing world. The bank, which is putting up \$20m of its own funds, said the project would benefit about 1m people who rely on dangerous and polluting sources of power such as candles and kerosene.

The project will be implemented by the private sector, according to government-approved standards. Part of the funding will be used to provide credit so that rural households can buy solar home systems on an affordable instalment basis. *Peter Montagnon, London*

World lenders urged to 'rally round' Pakistan

By Mark Nicholson in Karachi

The governor of Pakistan's central bank has urged multilateral lending institutions to "rally round" and step up support for reforms underpinned by the country's caretaker government.

This follows disappointment over the World Bank's refusal to provide a \$200m loan to back reforms aimed at restructuring ailing public sector banks.

Pakistan's three-month-old caretaker administration ends its tenure in office with Monday's general elections, called after the sacking in November of the government of Mr Benazir Bhutto.

The central bank chief, Mr Mohammed Yaqub, who yesterday began a three-year extension at the helm of the State Bank of Pakistan, directed his plea to the World Bank, International Monetary Fund and Asian Development Bank. He said funds were needed

to help tide Pakistan over a short-term squeeze in repayment of foreign debts at the same time as buttressing "massive reforms" to the financial sector.

"We hope to go back to the World Bank, the IMF and the ADB to try to get them to rally round this package of reforms - which is backing medium-term structural reform but which also provides us with short-term money," said Mr Yaqub. Pakistan would also seek an Enhanced Structural Adjustment Facility from the IMF, offering longer-term, more concessional finance than the present \$800m standby facility, he added.

Pakistan faces foreign debt repayments of around \$2.3bn before June, while foreign exchange reserves stand at around \$800m, "not a comfortable level, given our volumes of trade and size of liabilities," he said. Reserves have been lifted from their low of \$350m when the caretaker government took over, mostly by disbursements from an extended IMF standby facility and a \$150m loan from the United Arab Emirates. But reserves remain short of the \$1bn target set by Mr Yaqub.

Mr Yaqub added that remittance flows had eased in the past few months, partly due to uncertainties over the Pakistan rupee, devalued 40 per cent in the past three years and 17 per cent since October.

Mr Yaqub said the government had "anticipating" that remittance flows had eased in the past few months, partly due to uncertainties over the Pakistan rupee, devalued 40 per cent in the past three years and 17 per cent since October.

But he also said the devaluation had "sharply" improved Pakistan's current account. Export growth is 16 per cent, while the devaluation has helped cut the rate of import growth from 14 per cent in October to 2 per cent.

Millionth 'hit' for Chinese-language Internet service

Murdoch China venture Web site 'overwhelmed'

By Tony Walker in Beijing

The two-week-old Internet information technology venture in China by Mr Rupert Murdoch's News Corp and People's Daily, the Communist party newspaper, News Corp has provided the technology for the Web site, owned and operated by People's Daily.

ChinaByte, which began operations in mid-January, aims to be the single most comprehensive source of computer information for Chinese-language readers. The joint venture partners have invested \$2.5m in the new service, developed in co-operation with Ziff-Davis, the New York-based publisher of computer magazines.

ChinaByte services especially the US. The US military is among users which have sought Internet access to the service. About 70 per cent of users are seeking news about technology. Some 15 per cent use the service to exchange technical information.

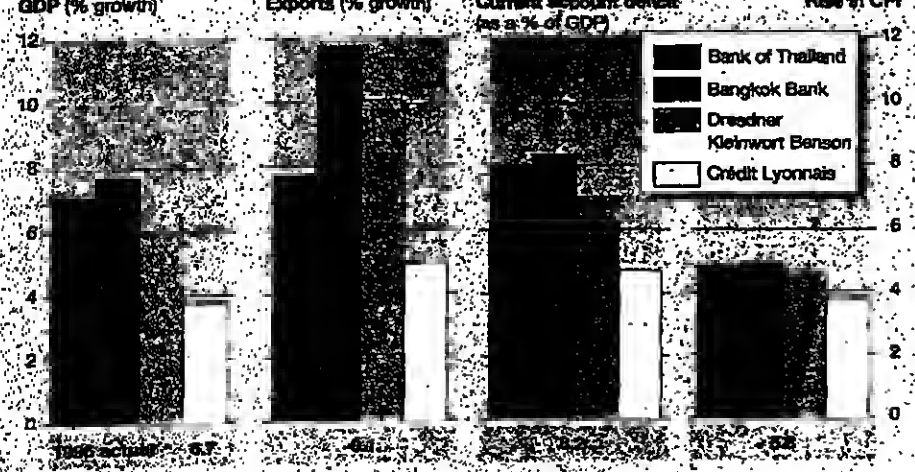
All these computer-literate Chinese on the net have never had anything to access before, so they keep coming back," said Mr Dover. ChinaByte plans to take advertising, starting in March, but the operators are making sure the system is functioning smoothly before seeking commercial sponsorship. Software suppliers such as Microsoft have shown keen interest in the profile of Chinese seeking access to the new service.

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Thailand: pessimists and optimists

Economic projections, 1997



Economy leaves little for Thais to celebrate

By Ted Barnacke in Bangkok

The Chinese New Year is next week and Bangkok's gold shops should be full of customers. They're not. Sales are 15-20 per cent down on last year, traders say, and central bank figures released yesterday show why.

The slowing Thai economy has yet to bottom out. Exports in November fell 5.8 per cent year-on-year, manufacturing production is at its lowest point since the political violence of 1992, credit growth continues to fall and private investment, after staging a slight recovery in the middle of last year, is falling off once again.

"The economy is stable but is showing no signs of recovery," said Mr Kleo-Thong Hetrakul, director of the central bank's department of economic research. Continuing poor exports are why there was muted reaction yesterday to an improvement in the most watched economic indicator in Thailand - the current account deficit, which fell 35 per cent year-on-year.

"Improvement on the external side came from a collapse in imports not increased exports," said Mr Song Sen Wun, regional economist with HG Asia in

Singapore. "You're going to get an improvement in the trade balance when the domestic economy is declining."

The financial authorities had been hoping an improvement in the current account deficit would set off a chain reaction whereby increased international confidence would renew large-scale capital inflows allowing interest rates to fall from their double-digit levels and leading in turn to a renewal of investment and economic activity.

In fact, the opposite is happening. For the second straight month Thailand had a balance of payments deficit - \$78m left the country in December alone - and foreign currency reserves now stand at \$38.7bn, down \$1.2bn from the peak two months ago. Interest rates remain above 13 per cent and yesterday the central bank once again spent an untold sum of dollars to prop up the baht.

For once, the Thai government cannot be blamed for the situation. The economic team led by Mr Amnuay Viravan, finance minister, is off to a respectable start. Mr Amnuay has declared his intention to cut spending, stabilise the property market and liberalise inefficient

sectors of the economy. At the same time, Mr Rangchai Marakanonda, central bank governor, has also been reasserting the Bank of Thailand's independence.

In the last two weeks he has hunched the government on a number of dubious schemes including a government-funded bailout of the property sector, the sale of troubled Bangkok Bank of Commerce to private investors and a call to lower artificially interest rates via an inflationary injection of cash into the money market.

Nevertheless, a coherent plan to revive exports has yet to emerge, with the industry minister, Mr Korn Dabbaransi, sniping recently that drawing up such a plan "was too time-consuming". An export pick-up, evident elsewhere in the region, would boost both short and long term confidence.

The force of the economic slowdown has also caused officials to revise down their tax revenue projection by 6 per cent to Bt925bn (\$36bn), leaving open the possibility Thailand could run a fiscal deficit for the first time in a decade if Mr Amnuay fails to enact his budget cuts soon. "I feel like we're sprinting just to keep the macro environment neutral," says one finance ministry official.

BUSINESSES FOR SALE

KPMG Sale of British Rail Property Board ('BRPB')

BRPB, the property advisory and management services business of the British Railways Board ('BRB') is being offered for sale.

BRPB acts as estate manager and professional adviser to BRB and provides a range of property services to other rail industry businesses. Its current activities include:

- Management and disposal of BRB's remaining property interests, including development land, office buildings and a mix of other surplus railway real estate;
- Provision of property management and agency services to train and freight operating companies;
- Other property related services, including maintenance of BRB's property records.

This is an opportunity to acquire a business with considerable experience in property management and sales, station retailing and property development, including railway related schemes, and railway privatisation property arrangements.

Based in London and with five regional offices, BRPB had 209 permanent staff at 4 January 1997.

Further information about the business and the sale process will be made available through the pre-qualification memorandum, available on request to appropriate enquirers.

Interested parties should contact:
Mr John Riddell, KPMG Corporate Finance, 8 Salisbury Square, London EC4Y 8BB. Tel: 0171 311 8548. Fax: 0171 311 8824.

KPMG Corporate Finance
This advertisement is issued by the British Railways Board. Its contents have been approved for the purposes of Section 37 of the Financial Services Act 1986 by KPMG Corporate Finance which is a division of KPMG which is authorised to carry on investment business by the Institute of Chartered Accountants in England and Wales.

KPMG Straker North East Limited t/a Hill International (in administrative receivership)

The Joint Administrative Receivers offer for sale the business and assets of Straker North East Limited trading as 'Hill International' contract stationary supplier.

Principal features of the business include:

- Commercial/contract stationary supplier and computer supplies;
- Commercial office furniture distributor;
- Blue chip customer base;
- Turnover approximately £1m per annum;
- Modern leasehold warehouse and offices of 11,000 sq.ft adjacent to A1 trunk road in Tyne-side.

For further information contact the Joint Administrative Receiver, Julian White, KPMG, Quayside House, 110 Quayside, Newcastle upon Tyne NE1 3JX. Tel: 0191 401 3700. Fax: 0191 401 3750.

KPMG Corporate Recovery

LEGAL NOTICES

Earth Sciences Instrumentation

The controlling shareholder of a well-known public geographical company in the U.S. wishes to sell their interest. The company is profitable, selling product worldwide in Oil and Gas, engineering, education, and environmental companies. Management is in place; products are state-of-the-art geographical instruments. The company operates independently and has a very active and successful new product development program. Interested parties please provide information about themselves and financial capabilities.

The Chairman
Financial Times Box # B5018
Number One Southwark Bridge
London SE1 9HL, England

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Major Southeastern US company with \$5,000,000+ sales, large customer base in Latin America & recent penetration in Middle East. 11 year proven track record. Serious principals only send references to: Financial Times Box #4990 No. 1 Southwark Bridge, London, SE1 9HL, England

\$200 MM Rev General Contractor, Western US Seeks Strategic Acquisitions

Seeks Acquisitions Committed to Growth, Diversify & Public Builder V Strong Franchise. Repeat Bus. & Backlog. Inquiries: Daley, Phone or Fax (415) 274-4560/4567

NIGHT CLUBS/PUBS/RESTAURANTS FOR SALE

Established business Southern England. £250k net profit. White Box, B4972, Financial Times, One Southwark Bridge, London SE1 9HL

THE BARING SECURITIES EMERGING MARKET INDEX TRACKER FUND LIMITED (IN VOLUNTARY LIQUIDATION)

The Companies Law (Revised) [Cap. 22]
TAKE NOTICE THAT the following is a Special Resolution which was passed by the members of the above named company at an Extraordinary General Meeting of the Members held on January 24, 1997.

RESOLVED THAT Christopher J. Johnson and Alan J. Davies of P.O. Box 219, Booterfield House, George Town, Grand Cayman, British West Indies, be appointed Joint Liquidators for the purposes of winding up the Company and that either of them shall have the power to act alone in the winding up.

NOTICE is hereby given that creditors of the above named company are required, on or before February 21, 1997, to send all particulars of their debts or claims to the Joint Liquidators of the said company.

In default thereof they will be excluded from the benefit of any distribution made before such debts are approved. Dated this 24th day of January, 1997.

Alan J. Davies
Joint Liquidator

The address of the Liquidators is: P.O. Box 219, Booterfield House, George Town, Grand Cayman, British West Indies. Tel: (451) 949-4590

CONCORD LIFTING EQUIPMENT LIMITED

Registered in England. 02642411
Nature of business: Hire and sale of lifting equipment
Trade description: 23
Date of appointment of Joint Administrative Receiver: 24 January 1997
Name of appointee: Concord Lifting Equipment Ltd
VIRIAN ALLSTON BAILEY and NIGEL RUDOLPH
Joint Administrative Receivers
Office: 100-102, 104 and 106, 108, 110, 112, 114, 116, 118, 120, 122, 124, 126, 128, 130, 132, 134, 136, 138, 140, 142, 144, 146, 148, 150, 152, 154, 156, 158, 160, 162, 164, 166, 168, 170, 172, 174, 176, 178, 180, 182, 184, 186, 188, 190, 192, 194, 196, 198, 200, 202, 204, 206, 208, 210, 212, 214, 216, 218, 220, 222, 224, 226, 228, 230, 232, 234, 236, 238, 240, 242, 244, 246, 248, 250, 252, 254, 256, 258, 260, 262, 264, 266, 268, 270, 272, 274, 276, 278, 280, 282, 284, 286, 288, 290, 292, 294, 296, 298, 300, 302, 304, 306, 308, 310, 312, 314, 316, 318, 320, 322, 324, 326, 328, 330, 332, 334, 336, 338, 340, 342, 344, 346, 348, 350, 352, 354, 356, 358, 360, 362, 364, 366, 368, 370, 372, 374, 376, 378, 380, 382, 384, 386, 388, 390, 392, 394, 396, 398, 400, 402, 404, 406, 408, 410, 412, 414, 416, 418, 420, 422, 424, 426, 428, 430, 432, 434, 436, 438, 440, 442, 444, 446, 448, 450, 452, 454, 456, 458, 460, 462, 464, 466, 468, 470, 472, 474, 476, 478, 480, 482, 484, 486, 488, 490, 492, 494, 496, 498, 500, 502, 504, 506, 508, 510, 512, 514, 516, 518, 520, 522, 524, 526, 528, 530, 532, 534, 536, 538, 540, 542, 544, 546, 548, 550, 552, 554, 556, 558, 560, 562, 564, 566, 568, 570, 572, 574, 576, 578, 580, 582, 584, 586, 588, 590, 592, 594, 596, 598, 600, 602, 604, 606, 608, 610, 612, 614, 616, 618, 620, 622, 624, 626, 628, 630, 632, 634, 636, 638, 640, 642, 644, 646, 648, 650, 652, 654, 656, 658, 660, 662, 664, 666, 668, 670, 672, 674, 676, 678, 680, 682, 684, 686, 688, 690, 692, 694, 696, 698, 700, 702, 704, 706, 708, 710, 712, 714, 716, 718, 720, 722, 724, 726, 728, 730, 732, 734, 736, 738, 740, 742, 744, 746, 748, 750, 752, 754, 756, 758, 760, 762, 764, 766, 768, 770, 772, 774, 776, 778, 780, 782, 784, 786, 788, 790, 792, 794, 796, 798, 800, 802, 804, 806, 808, 810, 812, 814, 816, 818, 820, 822, 824, 826, 828, 830, 832, 834, 836, 838, 840, 842, 844, 846, 848, 850, 852, 854, 856, 858, 860, 862, 864, 866, 868, 870, 872, 874, 876, 878, 880, 882, 884, 886, 888, 890, 892, 894, 896, 898, 900, 902, 904, 906, 908, 910, 912, 914, 916, 918, 920, 922, 924, 926, 928, 930, 932, 934, 936, 938, 940, 942, 944, 946, 948, 950, 952, 954, 956, 958, 960, 962, 964, 966, 968, 970, 972, 974, 976, 978, 980, 982, 984, 986, 988, 990, 992, 994, 996, 998, 1000

GOVERNO DA BAHIA NOTICE OF BID - DCL

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA, will issue de following bid: INTERNATIONAL BID Nº 001/COELBA/97. OBJECT: POWER TRANSFORMER. RECEIPT OF PROPOSALS: at 14:00 hours of March 4, 1997. COST OF BID CONDITIONS: R\$ 20,00 (twenty reais). ADDRESS FOR SALE OF BID CONDITIONS, RECEIPT, AND READING OF PROPOSALS: Av. Edgard Santos, 300 Block 1, Ground Floor, COELBA Main Building, Salvador, Bahia. BIDS AND CONTRACTS DEPARTMENT - DCL.

COELBA

SECRETARIA DE ENERGIA, TRANSPORTES E COMUNICAÇÕES

BONDHAY PLC

Registered in England. 275780
Trading name: Bondhay Cell & Co. Ltd
Trade description: 23
Date of appointment of Joint Administrative Receiver: 21 January 1997
Name of appointee: Bondhay Cell & Co. Ltd
DAVID JOHN STONE and EDWARD ALLEN
Joint Administrative Receivers
Office: 100-102, 104 and 106, 108, 110, 112, 114, 116, 118, 120, 122, 124, 126, 128, 130, 132, 134, 136, 138, 140, 142, 144, 146, 148, 150, 152, 154, 156, 158, 160, 162, 164, 166, 168, 170, 172, 174, 176, 178, 180, 182, 184, 186, 188, 190, 192, 194, 196, 198, 200, 202, 204, 206, 208, 210, 212, 214, 216, 218, 220, 222, 224, 226, 228, 230, 232, 234, 236, 238, 240, 242, 244, 246, 248, 250, 252, 254, 256, 258, 260, 262, 264, 266, 268, 270, 272, 274, 276, 2

NEWS: THE AMERICAS

Budget amendment faces fierce battle

By Gerard Baker
in Washington

A new attempt by lawmakers to pass an amendment to the US constitution that would outlaw federal budget deficits got under way in Congress yesterday, facing a fierce fight in both the House and Senate.

The Senate judiciary committee was expected to approve the proposal late yesterday and send it to the full Senate for consideration within the next few weeks.

It is the second time in two years that the proposal, backed by nearly all Republicans and by a significant minority of Democrats, but firmly opposed by the administration, has come before Congress. Two years ago it was passed by the House and defeated in the Senate by just one vote.

Republicans believe that, following the congressional elections last November, in which they made a net gain of three seats from the Democrats in the Senate, they now have enough votes to secure the required two-thirds majority in both houses. But the Republicans lost seats in the House, and must deal with the potential defection from their cause of several Democrats who backed it previously.

These members are especially concerned about the impact of the proposal on the financing of the social security system, the public pension programme for the elderly.

Earlier this week President Bill Clinton attempted to apply some heat to wavering Democrats by warning in a letter to Mr Tom Daschle, the Senate minority leader, that the amendment might force the government to stop paying social security to millions of pensioners.

The president wrote that if budget balancing requirements could not be met, reimbursement of social security cheques could cease or unselected judges could receive benefits to comply with this constitutional mandate.

A group of Republicans in the House sought yesterday to meet these concerns by saying they would introduce legislation to protect the social security trust fund from being used for other government programmes.

But in doing so they risk splitting Republican ranks, since the party's leadership has hitherto opposed any attempt to isolate social security from the rest of the budget.

The problem with ring-fencing the social security fund is that if it is excluded from calculations of the general budget deficit, the cost of balancing the overall budget in the medium term would become much greater.

The federal deficit of \$107bn in the current year includes a surplus on social security of about \$160bn.

If that surplus were removed, the cuts needed to balance the budget would be far greater than any savings that have been achieved in expenditure reductions in recent years.

By turning his employees into business partners, and persuading them to set up furniture workshops of their own, Mr Zarain was able to meet the hefty export orders which began to flow when he started attending trade fairs around the world.

"We were a cottage industry that needed to make the leap into industrial-scale production," Mr Zarain says. "The only way to do this was to harness the skills and the productive capacity of the whole town."

Chipilo (population: 3,000) today resounds with the clatter of hammers, saws and industrial lathes. There are 68 furniture and metal workshops, many of them erected beside family cowsheds, which do contract work for Muebles Segusino and employ more than 1,500 people.

Mr Zarain finances the workshops' start-up costs, and he supplies them with raw materials, furniture designs, and advice on management and quality control. The near-finished items are delivered to Muebles Segusino, where they are sanded, waxed and packed for export.

His big break came with the devaluation. Dollar earnings brought a huge peso windfall which was invested in new warehouses, better equipment, and the hiring of engineers and design consultants. "Three of Mexico's top furniture designers are helping us develop new product lines," Mr Zarain says. "The engineers are teaching us how to cope with the rapidly expanding demand."

Last year, Mr Zarain set up a trading company and a training centre to revive the region's handicrafts. His aim is to encourage weavers, potters and glass-blowers to form exporting co-operatives.

"There are so many products Mexico could export if only they were produced on a large enough scale," Mr Zarain says. "Unfortunately, Mexican artisans are not accustomed to pooling their skills. What they need to learn is trust."

The government has also woken up to the hidden potential of artisans and small businesses. At Bancomext, the state export bank, \$10bn has been set aside this year to introduce small and medium-sized companies to the exporting world.

"Big exporters do not need us any more. Commercial banks are more than willing to finance their business," says Mr Enrique Villate, managing director at Bancomext. "Our role has

SALEROOM - NEW YORK

Old Masters help pay pensions

By Antony Thomcroft



A pair of views of Venice, as seen from the Piazza San Marco, and painted around 1740 by Canaletto, sold for \$4.5m at Sotheby's in New York yesterday, way ahead of their top pre-sale estimate of \$2m. They are among the most famous views of the city and were almost certainly painted for an English nobleman making the Grand Tour.

The Canaletto were the highlight of 24 paintings sent for sale by the British Rail Pension Fund, of which all but two sold. The fund began investing in art in the 1970s and spent \$40m (\$61m) on about 2,400 objects. It has now disposed of well over 2,000, for more than \$150m, showing a reasonable annual return of 5.5 per cent above the retail price index.

Selling the Old Masters in New York was a surprise. Most of the BR collection was auctioned by Sotheby's in London, and London has



Detail from Sweets' "Plague in an ancient city", which sold for \$3.852m

traditionally been regarded as the centre of the Old Master market. But the imposition of a 2.5 per cent VAT charge on works of art in the UK,

and the desire to sell the paintings at a favourable time, persuaded Sotheby's to switch the sale to the US.

A painting by Drouais of the children of the Duc de Bourbon from the collection, also sold well at \$1.2m, while two previously unpublished landscapes by Bonchar almost doubled their estimate, selling for \$827,500. The BR pensioners are almost \$10m richer after yesterday's auction.

The sensation of the very successful sale of Old Masters was the \$4.512m paid for a view of Frederick in Paratiba, Brazil, painted by Frans Post in 1638. It was an auction record for the artist.

Equally impressive was the record price of \$2.7m, which secured a portrait by Willem Drost. It had been modestly estimated at up to \$200,000, but two bidders chased each other up.

The other feature of the auction was the disposal of eight 17th-century Dutch and Flemish paintings acquired by Saul Steinberg, chairman of the New York insurance group, Reliance Group Holdings.

They all sold, for about \$11m, comfortably ahead of the \$7m estimate. The star performer was "A plague in an ancient city", the masterwork of Michael Sweets, which sold for \$3.852m, within forecast, but an artist's record. Although the praying and dazed citizens portrayed on the canvas wear antique clothing, the painting was inspired by a plague in Rome around 1650.

Small turns out beautiful in booming Mexican town

Chipilo's furniture businesses are among many such enterprises that have helped push exports up 57% since the peso's 1994 devaluation, writes Leslie Crawford

The dairy town of Chipilo, nestled in a high, volcano-ringed plain south-east of Mexico City, was until quite recently best known for its cream and cheese, and the lulling Italian dialect still spoken by the great-grandchildren of Venetian immigrants.

Then an American tourist, driving through on his way back to New Mexico, stopped by Mr Antonio Zarain's furniture shop and bought every item on display. That chance encounter was to change Mr Zarain's life, and with it, the fortunes of the entire town.

"If it hadn't been for the gringo, I would never be exporting today," says Mr Zarain, who won Mexico's coveted Exporter of the Year award last month. Muebles Segusino, his furniture company, shipped nearly 240,000

reproductions of Mexican antiques in 1996 to customers in 44 countries.

Mr Zarain forms part of the new breed of businessmen who have helped double Mexico's exports in just under five years. Most of this astonishing growth has taken place since the devaluation of the peso in December 1994. Since then, exports have grown by more than 57 per cent to \$86bn in 1996, or 28 per cent of gross domestic product.

Bancomext, the government's export promotion bank, estimates there are now 31,000 Mexican companies directly involved in export activities, compared with 15,000 companies three years ago.

Mr Zarain's family business, however, has broken new ground in a sector dominated by very large industrial conglomerates and foreign assembly plants.

By turning his employees into business partners, and persuading them to set up furniture workshops of their own, Mr Zarain was able to meet the hefty export orders which began to flow when he started attending trade fairs around the world.

"We were a cottage industry that needed to make the leap into industrial-scale production," Mr Zarain says. "The only way to do this was to harness the skills and the productive capacity of the whole town."

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"Big exporters do not need us any more. Commercial banks are more than willing to finance their business," says Mr Enrique Villate, managing director at Bancomext. "Our role has

become more like that of an investment bank, structuring and financing projects with export potential."

Mr Villate is working on two fronts. He wants to see a greater integration within exporting industries, and he wants to promote exporting co-operatives or associations among small manufacturers.

At present, Mexican exports are heavily dependent on imported inputs. The border town maquiladoras (assembly plants), which account for almost 40 per cent of total exports, source only 2 per cent of their inputs from Mexican companies.

Local sourcing is reported to be better in the automotive and chemical industries, but most economists, including Mr Villate, believe Mexico's over-dependence on imports is unhealthy.

Last year's incipient economic recovery, in which GDP is estimated to have grown 4.5 per cent, produced a 23.7 per cent surge in the import bill.

Although Mexico still posted a trade surplus of \$6.3bn in 1996, its ability to continue generating surpluses in future will depend on the replacement of imported inputs by Mexican goods.

Bancomext has sponsored several events that have brought maquiladoras and potential suppliers together.

"We are studying the weaknesses in our export production chains," Mr Villate says, "and are combing the country, region by region, to identify which companies can be incorporated into the export effort."

Now you can take an East African holiday with Serena in both Kenya and Tanzania.

The excellent reputation that Serena Lodges and Hotels is famous for in Kenya, has been taken to Tanzania. You'll find the highest standards in comfort and service, with design that makes the most of traditional style elements and attention to detail that is above all else, sensitive to the environment.



Nairobi Serena Hotel, Kenya



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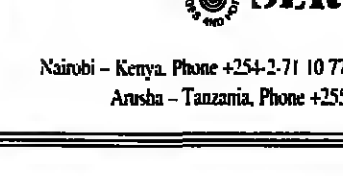
Mara Serena Lodge, Kenya



Serengeti Serena Lodge, Tanzania



Amboseli Serena Lodge, Kenya



Ngorongoro Serena Lodge, Tanzania



Samburu Serena Lodge, Kenya



Serengeti Serena Lodge, Tanzania

Amboseli Serena Lodge, Kenya

Ngorongoro Serena Lodge, Tanzania

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Envoy to EU faces opposition scrutiny

By John Knapman,
Chief Political Correspondent

Labour, the biggest opposition party, is reviewing the position of senior government officials involved in European policy-making, with the spotlight falling on Sir Stephen Wall, the UK's permanent representative in Brussels, a personal friend of Mr John Major, the Conservative prime minister.

While party figures say they have no "hit list" of senior officials, they have made clear that a Labour government would expect Sir Stephen to demonstrate quickly

his ability to rectify what they say is the UK's tarnished image in the European Union.

As part of the review, Mr Tony Blair, the Labour leader, has drawn on the advice of distinguished retired officials. They have included Sir Robin Renwick, former envoy to Washington and South Africa; Sir David Hannay, former ambassador to the United Nations, who has since been appointed the government's special envoy on Cyprus; Sir Rodric Braithwaite, ambassador to Moscow at the time of the 1991 coup and collapse of the Soviet Union; Lord Gilmore, former head

of the diplomatic service; and Sir Michael Butler, former permanent representative to the EU. He has been asked by Labour to help plan the union's enlargement to southern and eastern Europe - an issue that will be central to the UK's presidency of the EU in the first half of 1998.

As a serving ambassador, Sir Stephen is obliged to represent the views of the government of the day and has been in the uncomfortable position of being barred by convention from holding detailed talks with Mr Blair.

However, serious doubts about Sir Stephen's credibility with a

Labour government arose last year following publication of the report by Sir Richard Scott into the arms-for-Iraq affair.

The report alleged that in 1992 Sir Stephen deleted a key phrase in a letter from Mr Major to an opposition politician denying that there had been any change in the arms exports guidelines. The draft letter had admitted "minor modifications" to the guidelines.

In spite of the controversy, Sir Stephen was catapulted, on the prime minister's personal instructions, into arguably Britain's most sensitive diplomatic post at the relatively young age of 48. Between

1993 and 1995 he held the relatively junior ambassadorship in Portugal. He was knighted last year.

Sir Stephen first came to prominence as private secretary in Downing Street during Mr Major's first two years in office.

Over the past year Sir Stephen has represented Britain in several confrontations, from mad cow disease to the protest at the EU 40-hour working time directive.

Mr Blair has maintained that, although he would be wary of being part of a single currency in the first wave, he wants to portray a much more positive approach towards other EU business.

Operation of courses offered overseas is criticised

By Simon Targett,
Education Correspondent

Evidence that management of overseas courses at Swansea Institute of Higher Education in south Wales was "seriously flawed" was reported yesterday by the National Audit Office, a government agency. The courses generated an annual income of £400,000 (£648,000) last year.

A survey of the eight other higher education institutions in Wales which offer overseas courses found no similar cases of maladministration. But Mr Alan Williams, a Labour MP who first alerted the NAO to the Swansea Institute scandal, said: "It is inconceivable that the same temptations and pressures do not apply to other institutions across the UK."

The financial pressures facing the UK higher education sector have led most institutions to offer money-spinning overseas courses. Some have come unstuck. Last year, Southampton Institute of Higher Education, the biggest in the country, was forced to shut its Athens campus, losing more than £250,000. In December, the government's quality council questioned the rigour of overseas courses offered by Kent University and Strathclyde University.

The NAO called yesterday for British universities to be regulated by an independent ombudsman who would investigate claims of maladministration and safeguard the reputation of British qualifications in other countries.

The NAO, working with the Welsh Funding Council, discovered that Swansea exercised "poor control" over the distribution of examination certificates. In Malaysia, 500 certificates for the postgraduate diploma in business management were printed locally. The NAO said this "could potentially have led to certificates being issued or sold locally".

Swansea's principal, Dr Gerald Stockdale, who resigned last July with a £127,000 pay settlement, went on 33 overseas trips in four years. His 18 trips to Kenya were deemed to be "ill-judged" and "disproportionate to the income from the courses there".

The NAO said the Swansea case highlighted "the need for an individual or body to discharge an ombudsman-type role for higher education institutions". It said an ombudsman would be "a part of call" for academics with complaints.

But the proposal, unlikely to win support from their leaders, Dr Clive Booth, vice chancellor of Oxford Brookes University, who chairs the universities' working group on accountability, said: "An expensive central ombudsman's office is not something universities need or can afford."

IRISH PERMANENT BUILDING SOCIETY

6% Bonds 1999

Notice is hereby given that the semi-annual dividend on the Irish Permanent Building Society's 6% Bonds 1999 is payable on 10 February 1997. The record date for this purpose (as defined in Article 4 of the Terms and Conditions of the Bonds) is 31 January 1997. The Bonds will go ex-dividend on 10th January 1997 and payments will be posted on 7 February 1997. Payments will be effected through Bank of Ireland, Registration Department, 4th Floor, Hume House, Ballsbridge, Dublin 4 who are Registrar for the issue.

Ran O'Sullivan
Secretary

Company officials startled by storm over inward investment remark

Toyota chief tries to calm row

Financial Times reporters in
Tokyo and London

Mr Hiroshi Okuda, president of Toyota, Japan's biggest car producer, yesterday sought to calm the UK political row triggered by his warning that the company's European investment strategy might change if Britain stayed out of European monetary union.

But Mr Okuda repeated his assertion that Emu would influence Toyota's future decisions on which countries would be chosen for any new Toyota production in Europe.

"Generally, regarding companies which operate in Europe, a unified currency would reduce currency exchange rate fluctuations and risk - and would be a significant advantage," he said in a prepared statement. Investment decisions would, as before, be determined by "basic business factors", such as locations and infrastructure, good labour force and logistics, Emu was also one aspect of these factors, he said.

But in an apparent moderation of his earlier warning that additional investment in the UK would be "excessive", with or without Emu membership, Mr Okuda said that "future investment in the UK is being considered

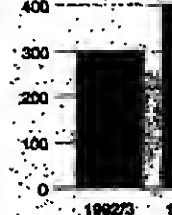
Direct investment in UK

Countries of origin: years in March (£m)

	1996/97	1996/98	1996/99	1997/00	1997/01
Germany	58.3	174.9	544.4	402.3	1,535.4
France	80.9	215.5	198.8	59.2	1,188.2
Japan	443.5	293.8	1,065.0	100.1	1,156.7
US	594.2	1,502.4	1,002.3	1,213.1	2,876.9
S. Korea	17.0	28.2	23.2	15.9	560.1
Taiwan		60.0	26.1	13.5	189.0
Total	1,537.7	2,891.2	3,878.9	2,520.2	8,351.3

Projects: number

Source: Invest in Britain Bureau



Record number of projects approved

By Stefan Wagstyl

Investment in the UK by companies based in other countries is running at record levels. British government offices approved 477 investment projects in the year to March 1996, up from 434 the previous year. These schemes created or safeguarded 56,582 jobs, also a record.

The data almost certainly understate the actual flow of investment because many companies, particularly those with established UK operations, do not notify the government of their plans.

Mr Ian Lang, chief industry minister, estimates that the UK's stock of direct investment from other countries rose from £44.3bn (£71.7bn) in 1985 to more than £150bn last year.

US companies head the list, followed closely by Japanese groups including the three carmakers with UK operations - Toyota, Nissan and Honda. For these countries, with long-established British subsidiaries, re-investment accounts for the bulk of investment. They have been joined in recent years by a wave of South Korean investment.

Within the European Union, Britain's share of this non-EU investment is so high that some government officials believe it may be inevitable that some new investment from big groups already in the UK will switch to other member states.

Japanese and other non-EU companies will diversify geographically. Some already have, notably Sony, the electronics group, which has extensive operations in Germany as well as the UK.

But the UK should continue to benefit from re-investment and new investment by companies not yet established in the EU. Also, the flow of non-EU investment has in the past three years been swollen by capital from EU countries.

Editorial Comment, Page 19

Emu worries appear in Tokyo

By William Dawkins
in Tokyo

Toyota's warning that its UK investment strategy might change if Britain stayed out of European monetary union reflects an ill-defined sense of unease among Japanese policymakers and top executives.

The message is that Toyota would - all other things being equal - be happier for its European plants to be inside Emu than out. Mr Okuda, one of the few Japanese company presidents unafraid to speak his mind in public, has expressed a concern that some of his colleagues in Tokyo share, but prefer not to voice.

Officially, other Japanese corporate investors were

yesterday distancing themselves from Mr Okuda's warning. "Our investment strategy has not been one of European Union members versus non-EU members; whether the UK stays in or out of Emu does not change that," said Sony, the consumer electronics giant which in 1973 became the second Japanese company to open a wholly-owned plant in the UK.

"Britain is an important car supply base on the global level, so we have absolutely no intention now to change that status," said a spokesman at Nissan, the first Japanese car producer to open a factory in the UK.

But Japanese officials were slightly more blunt than corporate executives. Mr Yoji Sugiyama, executive director of the Japan Exter-

nal Trade Organisation, said there had been "some speculation" among businessmen over how Britain's possible self-exclusion from Emu would affect their investment strategy. "We argue a lot among ourselves about it," he said.

The debate was as indecisive as the UK government's own policy, he said. "But personally, I hope that the UK will join, not just for the sake of Europe and Japan," he added, reflecting a common view in Tokyo.

Mr Kazuyuki Kinbara, head of the European desk at the Kaidanren business federation, said most Japanese businessmen know little about Emu. "But there is a small minority of EU watchers who have expressed serious concern,

mainly over technical aspects," he said.

The general sense in Tokyo is vague concern that a Britain outside Emu might entail administrative and foreign exchange costs for companies based there, and that a decline in UK political influence in Europe would be unwelcome. Non-membership might bring such a decline.

Effective British political backing for Japanese business interests has been a factor in the UK's past success in attracting Japanese investment.

Indeed, the government's mid 1980s commitment to obtaining Customs duty free access to the rest of Europe for cars assembled in Britain was crucial to persuading Nissan and Toyota to invest there.

£1m-a-year jobs offer tempts City traders

By Samer Iskandar in London

Photocopiers and fax machines were working overtime in the City of London yesterday as traders and analysts copied job advertisements offering base salaries of £1m and upwards.

"There might have been offers for one-million-dollar jobs before, but a million pounds is different. It's a lot of money," said a bond market

expert at a US bank. The advertisements, placed in Wednesday's Financial Times by Career Group, a recruitment consultancy, offered base salaries of up to £1m (£1.9m) for a global head of quantitative research - "management experience not necessary" - and a senior convertible bond salesman. A third offer, for a quantitative trader, promised "unlimited" pay.

"This kind of salary is not unusual

in the securities industry," said Mr Charles Foster, managing director of Career Group. "But there have probably not been that many offered in just one ad." He also said the base salary indicated as "unlimited" could be higher than £1m.

Although potential candidates might be in their early 30s - four to six years' experience is required - the chosen few could earn more than the likes of Mr Jan Leschly, chief

executive of Smithkline Beecham, and the UK's second highest paid senior executive. His base pay amounted to £900,000 in the year ended December 1996, in addition to which Mr Leschly received a further £208,000 in incentive pay according to Monks Partnership, a remuneration advisory firm. The UK's highest earner was Lord Hanson, chairman of Hanson, with a base salary of £1.32m.

Yacht saga stirs the Westminster waters

British general election campaigns occasionally throw up some odd bones for the dogs of Westminster to fight over. But few have been quite as controversial or as ridiculous as the latest row over whether Queen Elizabeth should have a royal yacht.

For decades, this splendid ship, built and owned by the British government, has been the stage for glamorous royal events. It is one of the more lavish showcases for Britain's fading and divorced royalty.

Over the past year, Mr John Major's Conservative government has faced a dilemma. The current ship - now 43 years old and on its last voyage - will be decommissioned at the end of the year. So, with the government facing tight spending constraints, would it spend the £60m (£97m) of public money needed to build a new

The storm has even flung the Queen into the banal whirlpool of politics

one? Or would it bow to the growing anti-royal mood in the UK which asserts that the royal family is an expensive luxury?

To the surprise of many observers - and after nearly a year of deliberation - cabinet ministers agreed last week that the money would be spent building a new vessel. But the government rejected calls for private sector money to be used for the project - privately admitting that the Queen would have regarded it as undignified to have a ship that was "sponsored".

The announcement has

triggered a row as furious as anything Westminster has seen in recent years. The opposition Labour party - with its new-found commitment to tight public spending - accused the government of being profligate. The Conservatives claimed that Labour had been caught off-guard by the decision. The royal family itself was dragged into the banal world of politics.

The decision by Mr Major and his colleagues to build the ship had little to do with royalty. Instead, it was aimed at appeasing British business. In recent weeks, Mr Tony Blair, the Labour leader, has made formidable inroads persuading company executives to back his campaign. But senior businessmen also believe the yacht is invaluable for attracting business figures at conferences outside the UK.

That was not the impres-

sion given by the government, however. Playing a more patriotic card, Mr Michael Portillo, the chief defence minister, said it would be a "symbol of the crown, the kingdom and its maritime traditions". The Queen was reported to be "delighted" by the decision.

Labour's response was initially confused. But then an opinion poll said the public was 3:1 against the decision. So the party hardened its view. First, it said it should have been consulted. Then it said it might scrap the building plans. That triggered the second mistake by Mr Portillo. He claimed that Labour had been "wrong-footed" by the government's announcement - suggesting that the Conservatives were exploiting the yacht issue - and therefore the royal family - for pre-election purposes.

So what is the impact of the tale? It will certainly not

help the Queen, who, although head of state, has no role in party politics. Respect for the royal family is on the wane in Britain. A recent television poll suggested that about a third of the public would like a republic. Even more do not want Prince Charles to become king.

But the impact on the Conservative party is probably worse. The last few days show that in its current state, the government cannot handle what should be a popular decision. Worst marks of all go to Mr Portillo, however. Three years ago he was seen as the minister most likely to succeed Mr Major to the Tory leadership. A series of mishaps and miscalculations have undermined that position. His handling of the royal yacht business may be the last straw.

James Blitz

UK NEWS DIGEST

Dispute erupts on NI marches

Labour, the biggest opposition party, indicated yesterday that it would reconsider ending its bipartisan approach to Northern Ireland if ministers failed to introduce legislation giving a new independent commission the right to adjudicate on marches there. Sir Patrick Mayhew, the Conservative government's chief minister for Northern Ireland, said further consultation was needed on the main recommendation of the five-month inquiry into the policing of marches headed by Dr Peter North, vice-chancellor of Oxford University.

The report called for an independent commission empowered by law to decide on disputed marches. The inquiry was set up last July following the disorder in the wake of a last-minute decision by Northern Ireland police to allow the Protestant Orange Order to march through a Roman Catholic estate in the village of Drumcree. The police clampdown led to weeks of street violence. The Conservatives and the combined opposition parties are neck-and-neck in the House of Commons, and the fate of the government is in the hands of the anti-nationalist Northern Ireland MPs of the Ulster Unionist party. Mr Paddy Ashdown, leader of the centrist Liberal Democrat party, said the prime minister, Mr John Major, was undermining prospects for peace in Northern Ireland for the sake of "a few more days in power".

John Knapman

■ BCCI \$1.8bn legal claim thrown out

A \$1.8bn legal claim brought against Ernst & Whinney by the liquidators of the collapsed Bank of Credit and Commerce International was dismissed in London yesterday by a High Court judge. Ernst & Whinney is a predecessor firm of the present Ernst & Young, one of the UK's "Big Six" accountancy firms. The judge said E&W, former auditors of BCCI Holdings, the bank's parent company, did not owe a duty of care to BCCI (Overseas), a subsidiary for which the accountants never acted. The liquidators' claim that E&W was liable for damages because it had such a duty of care was "long on assertion and deficient on relevant facts", the judge said. The ruling represents a further scaling down of the legal actions being brought against the BCCI auditors by the liquidators. Originally, the claims against E&W totalled \$10bn. This was reduced to \$3.5bn in June 1995. E&W still faces a \$1.7bn claim from the liquidators.

John Mason

■ THE ECONOMY

Strong pound 'slowing growth'

The strong pound has transformed the prospects for the UK economy, hitting economic growth this year and causing a severe worsening of the public finances, a leading forecasting group claims today. The influential National Institute of Economic and Social Research believes sterling's persistent rise means that inflation will remain below the government's 2.5 per cent target until the end of the decade, without the need for further interest rate increases.

But the pound's strength implies taxes will have to rise as slower growth hits tax revenues. The institute has revised down by about one-third its forecasts for GDP growth this year to 2.5 per cent. Its predictions, made in October, put it at 3.4 per cent. It has halved its forecast for export growth in 1997, from 7 per cent to 3.5 per cent. It said its forecast for domestic demand growth was unchanged at 3.25 per cent this year. Mr Martin Weale, the institute's director, criticises the Bank of England and the City of London.

He believes they have not fully adjusted their inflation and interest rate expectations to take account of the pound's rise.

Graham Bouley

■ POLLY PECK

Nadir aide walks free from court

Miss Elizabeth Forsyth, a former aide to Mr Asil Nadir convicted of laundering stolen money, walked free from court yesterday after the Court of Appeal in London in effect quashed her five-year jail sentence. Lord Justice Beldam said the sentence, imposed after Miss Forsyth was convicted last March of handling £400,000 stolen from Mr Nadir's Polly Peck empire, was too great and that she should be given immediate bail.

Miss Forsyth, who acted as Mr Nadir's personal banker, was convicted by 11-1 majorities on two charges of handling stolen money.

John Mason

BULGARIA EMERGENCY APPEAL

This winter Bulgaria faces its worst crisis in decades...

As the snow continues to fall, Bulgaria is in the grip of the fiercest winter since 1921. A struggling economy, disastrous harvest and fuel shortages means that the Bulgarian people face a crisis of huge proportions. No one will feel the terrible effects more than Bulgaria's abandoned and orphaned children. Already malnourished and inadequately cared for, this winter will exact a terrible toll.

...and 30,000 children face starvation and death

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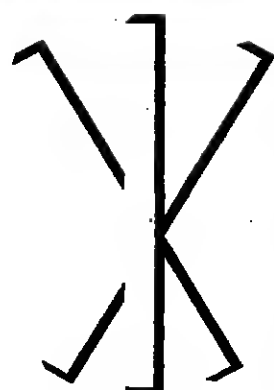
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RECRUITMENT

Richard Donkin looks at ways to value the most intangible of assets – a company's staff

There's no accounting for magic

There may be those who care little for sport. Some may even profess disinterest in football. But few who saw Chris Waddle's spectacular side-footed chip over the goalkeeper's head from 40 yards, which helped secure victory for Bradford City against Everton in Saturday's FA cup tie, would deny they had witnessed something special.

How can you place a value on such goals? How can you place a value on Chris Waddle? Such questions must tax the minds of football managers, particularly since the 35-year-old Waddle, approaching the end of his playing career, was given a free transfer to one of the English league's less fashionable clubs.

Beyond football, the value of employees is beginning to attract increasing interest from business leaders, some of whom are showing signs of frustration at the failure of the accountancy profession to devise a satisfactory way of assessing the worth of human talent.

This is apparent in a survey of directors among 120 of the UK's top service sector companies carried out for

Theodore Goddard, the London law firm.

Some two-thirds of the directors harboured frustrations, they said, because they believed that accountants placed more value on tangible assets, such as property and equipment, than on staff.

But recently the accountancy profession has been spending more time debating goodwill accounting, and if the proposals outlined in FRED (Financial Report Exposure Draft) 12 are adopted by the UK's Accounting Standards Board, its nature will change. One effect would be that the value of intangible assets – like footballers – with a limited useful life would be reduced year by year over their estimated life.

But this is a highly contentious issue – made more uncertain by the Bosman ruling in the European Court which allows football

players to move between EU member states without a transfer fee once their contracts have expired.

The biggest difficulty in valuing company employees is that, unlike fixed assets, they are not owned by the business. They can and do walk out of the door.

Karen Moloney, of Moloney and Geale, a human resource consultancy, says evaluations of football players could hold the key to finding a process for assessing the human or intellectual capital of a company.

Defining intellectual capital, she argues, is important if employees, the so-called human resources, are to be seen as an investment rather than as a cost.

Kate Olley, a human resources consultant at Arthur Andersen, says that if companies could work out the real costs of their employees they could measure the expected return and, where necessary, identify potential cost savings.

Some of these issues are beginning to attract the attention of the personnel profession as it attempts to quantify its contribution to business development.

It may, for example, be incumbent upon personnel to point out the need to reorganise a company's pay and management structure to give better rewards and recognition to technical staff whose value, under a flatter employment structure, has risen beyond that of many of the managers.

This would only be possible, however, if the business had an effective system of valuing the contribution of individual employees.

But most existing evaluations, including employee appraisals, are extremely subjective. Returning to the football field, David Myddelton, professor of finance and accounting at Cranfield School of Management, likes to cite the French national

squad's rejection of Eric Cantona, the Manchester United midfielder player, because the manager does not regard him as a team player.

Yet Cantona, under skilful club management, has shown that he is one of the finest players gracing the English football league. Such observations make Myddelton doubtful that any accounting system could deal with the vagaries of human ability.

It may indeed be a red herring to look towards accountancy for a solution. That, at any rate, is the belief of Skandia, the Swedish insurance and financial services company.

For the past five years Skandia has included a supplement to its annual accounts highlighting value creation through human development.

Leif Edvinsson, director of intellectual capital at Skandia, explains it as the difference between harvesting – the job of the chief financial officer who focuses on the profit and loss account – and that of looking after the roots of the organisation, the feeding and nurturing necessary to maintain healthy future growth.

The Skandia approach embraces a more holistic view of a company within society that recognises there is a relationship between profit, sustainability, renewal and employment.

Accountancy, argues Edvinsson, tends to focus on the concerns of the stock market that concentrate on financial values, such as earnings per share – another view of harvesting.

Skandia is seeking to free up what it calls its structural capital – what's left at the office when people go home.

In some ways this concept is similar to that employed by Ricardo Semler at Semco,

the Brazilian industrial products manufacturer. Semler has become less concerned with who the company employs than how the fixed assets are best exploited for profit.

Skandia has developed a series of alliances, collaborative ventures and partnerships that generate profit from professionals not directly employed by the company. In Skandia AFS, its assurance and financial services business, the ratio of direct Skandia employees to those employed in the network of alliances is 1:30.

The company has developed an accounting-style format for displaying its intellectual capital, a table it calls the Skandia Navigator. This includes such measures as a satisfied customer index, an empowerment index, and training expenses per employee. But the company also attempts to set out the processes involved in developing employees.

Such processes are beginning to spin off into the overall business. This concept of renewal is driving negotiations with the Swedish government for an insurance-linked scheme that will allow Swedish employees to take time off work to learn new skills or renew their expertise.

The scheme, called competency insurance, is based on the premise that employees will need to spend between 20 and 30 per cent of their time re-investing in training and learning if they are to keep up with changes in the international marketplace.

Employees would invest 5 per cent of their salaries in an insurance policy which would fund leave of absence to undergo re-training. The company is hoping to make the insurance payments tax deductible.

The perception of the Theodore Goddard survey that, to quote the report, "bean-counters value bricks and machines more than people" may give accountants some food for thought. In the meantime they will receive few complaints from Bradford City where they'll be talking about that goal for years.

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Treasury and Capital Markets

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Duties & Responsibilities:

- Assess current and future business/organisational requirements, analyze functionality of existing/proposed systems, document present and future transaction flows, conduct input studies and recommend/implement operational/systems design and enhancements in relation to the new systems.
- Primary Qualifications:
- Five years related, progressive banking experience in a similar business/operational/organisational methods analysis and implementation management role within Treasury & Capital Markets environment plus three years experience in an international money transfer environment.
- Extensive knowledge of analysis techniques, client sales service philosophies, accounting and audit/control standards and SWIFT.

Implementation Analyst

Duties & Responsibilities:

- Review all pertinent documents and oversee user testing.
- Primary Qualifications:
- Three years experience in testing and successful implementation of Treasury & Capital Markets products/services within a financial institution.

General Qualifications: (all positions above)

- Undergraduate degree in Business, Commerce or Economics, or related discipline or equivalent.
- Extensive experience with knowledge of Treasury & Capital Markets products, services, and systems, including front, middle and back office bank processes/procedures.
- Excellent PC skills with demonstrated proficiency in use of Microsoft Windows software in particular Word, Excel and PowerPoint.
- Excellent interpersonal/communication (both oral and written) skills.
- Highly motivated, mature, reliable professionals with the ability to work effectively as team members and operate independently as required within a very demanding work environment to meet deadlines.

Qualified applicants should fax their resumes in complete confidence to Mr. Greg Malloy, Manager, Human Resources, The Bank of N.T. Butterfield & Son Ltd. (441) 252-73 before closing date February 7/97



http://www.bermuda.bnm/bt/butterfield



BANK RESEARCHER

The Banker, the monthly banking journal of FT Magazines, read in over 125 countries, is looking for a recent graduate to join its bank research team. The job involves the research and compilation of our global, regional and country bank listings, including our Top 1000 World Bank listing. It provides an excellent opportunity to learn banking from the inside and a chance to develop analytical and journalistic skills.

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Please send your curriculum vitae to the Editor, THE BANKER, 149 Tottenham Court Road, London W1P 0LL. All applications should be in by 31 January. Interviews will begin as soon as possible.

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If you wish to apply for this position, please send a letter of introduction and a copy of your curriculum vitae to PO Box A5164, Financial Times, 1 Southbank Bridge, London SE1 8NL.

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Salary and benefits: D2 of United Nations salary scales (approximately USD 137,000 to USD 155,000 gross per year, depending on qualifications and experience) and other U.N. expatriate benefits.

Applications in English, including a curriculum vitae, should be received not later than 28 February 1997, addressed to:

The Managing Director, Common Fund for Commodities
P.O. Box 74656, 1070 BR Amsterdam, The Netherlands.

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To apply, please forward your resume to Michelle M. Bankers Trust Australia, PO Box 8295, Australia Square, NSW 200 Australia or fax to (612) 9259 9860.



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The successful candidate will be involved in the research, development and delivery of innovative and practical customised training programmes for Fund Managers, Private Bankers and Equity and Fixed Income Salespeople at all levels of seniority. Applicants should either be a fund manager wishing to embark on a positive career change or an equity/fixed income salesperson with an in-depth knowledge of portfolio management styles and processes.

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Candidates will demonstrate an in-depth front-office knowledge of international capital markets and treasury products. Applicants must have a comprehensive knowledge of derivative instruments and be mathematically proficient. A background in trading, managing or marketing these products in an international environment would be ideal.

They must demonstrate:

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Please reply by 19 February 1997 with CV and stating which position you are applying for to: Bernadette Swithenbank, DC Gardner Training, Nestor House, Playhouse Yard, London EC4V 5EX.

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- provide expertise in all corporate development activities including company secretarial duties and the personnel function.

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- Excellent report composition skills.

Position is local-hire status (salary and limited benefits only) in the USAID/Moscow Office of Financial Management. Interested individuals should send resume and application letter by February 8, 1997 to: Fax: #7-085-656-70-92/93 (Attn: EXOP/PER).

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Reporting to the Group Finance Director, the prime task is to direct the small, highly skilled, audit team. Key to success will be the further enhancement of the relationship with operating units.

To qualify, you will be impatient for a fast track career in an international environment, yet recognising that this key role requires at least a three year commitment. You will have a good degree, first time professional examinations passed and an outstanding record of advancement since qualifying, including substantial multinational auditing experience. Of top rate intellect, widely informed, you will be a mature communicator, with natural authority and influencing skills. Language skills would be valuable and freedom to travel is essential. You are likely to be aged in your early 30s and have considerable career potential.

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- Managing the implementation of new management information systems which integrate project control with financial reporting.
- Critically assessing business performance through monitoring project margins and overheads.

The Skills Required

- Graduate, Qualified Accountant
- At least 6 years post - qualification experience gained in a commercial environment
- Proactive with flexible approach; an ability to deal with all levels of staff is required
- Outstanding communication skills with the ability to clearly explain and quantify business plans and performance

The business needs highly competent managers capable of adding value to the business and providing a major contribution to the all round commercial management of the region.

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To succeed, you will be a chartered accountant with 5 to 10 years post qualification experience gained in a commercial role. Your analytical and communication skills will be amongst your strengths combined with an enthusiasm to enhance your career in this high profile role.

The functional responsibilities in supporting the FD will include production of quality financial

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To apply, please send and fax your details, including current salary package and quoting Ref: LP9784 to our retained consultants: Holmes and Court Associates, Widgate House, 19 Widgate Street, London E1 7HP. Fax: 0171 247 9272



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Reporting to the Finance Director, in a small team, you will specialise in the critical appraisal of operations from a financial and strategic perspective. You will take responsibility for all management reporting and work with Business Directors to develop effective business unit reporting within an activity based costing framework. Your ability in working with modelling techniques will provide the necessary financial input to the Group's strategic planning process and you will play an integral role in developing all aspects of management information systems.

You will be a qualified accountant with commercial experience gained either within a high volume transaction oriented business or from within the accounting profession, where you can demonstrate a record of success and achievement. You will be highly numerate, computer literate, task oriented and possess outstanding communication skills, both written and oral. This role is an excellent entry point into a successful and profitable business committed to developing management of the highest calibre.

Interested candidates should write promptly to Michael Herst at Herst Austin Rowley, 30 St. George Street, London W1R 9FA, enclosing a full Curriculum Vitae and quoting ref. HAR0113. Fax: 0171 409 7872. Email: michael@herst.co.uk

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BARCLAYCARD

Reporting to the Finance Director, the role encompasses the provision of management reporting and other key, non-financial information to the business and related issues. As part of a capable team, a prime objective will be to take leadership in building an effective performance operational areas, designed to shape business performance. This will involve reviewing existing methods of operation, implementing principles where possible and working towards the future development needs of the business.

Prospective candidates must be qualified accountants, probably aged early 30's and upwards, with broad-based financial management experience, gained preferably in a large organisation. Candidates must additionally demonstrate effective communications and influencing skills and will be committed to continuous improvement coupled with the ability to manage large-scale, complex change and drive it through. Of equal importance is an in-depth understanding of IT issues, whilst awareness of leading-edge methodologies such as activity based costing, would be of additional benefit.

Interested candidates should write promptly to William Greenwell at Herst Austin Rowley, 30 St. George Street, London W1R 9FA, enclosing a full Curriculum Vitae and quoting ref. HAR0112. Fax: 0171 409 7872. Email: bill@herst.co.uk

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PEPSICO

MOZAMBIQUE Banking Supervision Adviser

It is ODA's intention to appoint an adviser in the Banking Supervision Department (BSD) of the central bank, the Bank of Mozambique. The adviser would be based in Maputo for a period of one year initially starting early 1997.

This challenging post would be central to efforts to strengthen supervision of Mozambique's recently liberalised and steadily growing financial sector. A specialist is required both to help improve the effectiveness of the BSD and to advise on the regulatory framework and supervisory structure to ensure continued compliance with BIS guidelines and sound international practice. At the end of the second year the BSD should be able to function effectively without external assistance.

QUALIFICATIONS

Ideally you will be a senior economist or a Chartered Accountant with more than 5 years' experience in a senior position in a banking supervision department. You should preferably have experience of working in Africa. A working knowledge of computerised information systems coupled with a commitment to making a positive contribution to the work and development of the Department is essential as is the ability to interact with all levels of management and staff. Ideally you will be fluent in Portuguese, though intensive language training will be provided if this is not the case. Applicants should either be nationals of Member States of the European Economic Area (EEA), or Commonwealth citizens who have an established right of abode and the right to work in the United Kingdom.

TERMS OF APPOINTMENT

You will be on contract to the British Government for one year initially in service to the Government of Mozambique. Salary will be c.£65,000 p.a. (UK taxable). Additional benefits will normally include variable tax-free allowances, children's education allowances, free accommodation and passages.

Closing date for receipt of completed applications is 14 February 1997.

For further details and application form, please write to Appointments Officer, Ref No AH304/McM/ET, Abercrombie House, Eaglestone Road, East Kilbride, Glasgow G75 8EA, stating Ref No AH304/McM clearly on your envelope, or telephone 01355 843352.

ODA is committed to a policy of equal opportunities and applications for this post are sought from both men and women.



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Due to the rapid expansion of the global equity derivatives business, a number of vacancies are currently available for exceptional qualified accountants at both entry point and management levels.

The department is developing rapidly and is poised for extensive growth in line with increased business levels. High calibre individuals can expect rapid progression along with ongoing technical and professional development.

These key roles are unusually broad in scope and will cover structured and vanilla derivative product trading activities. Paramount to the successful performance of the roles will be

Highly competitive packages

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Specific responsibilities will include:

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- Client Structure Analysis
- New Product Implementation
- Pricing Verification
- Financial Analysis
- Systems Development

Prospective employees should be qualified accountants currently working in banking institutions, public practice or blue chip commercial organisations (individuals wishing to be considered for managerial roles must have prior banking experience). Candidates should additionally possess strong academic and professional track records, coupled with self motivation, initiative, commitment and a strong technical ability.

Interested applicants should contact Paul Marsden or Jonathan Astbury on 0171 353 7533, fax: 0171 353 7703 or write enclosing your CV to Astbury Marsden Search and Selection, Hamilton House, 1 Temple Avenue, London EC4Y 0HA. All applications will be treated in strictest confidence.

Deutsche Morgan Grenfell



Finance Director

South London Circa £50,000 plus bonus and car

This is an exceptional opportunity to play a key role in the business management of an expanding company, operating in the international telecommunications software industry and part of a major multi-national.

There is a strong commercial dimension to the role and an important objective will be to shape the financial and commercial functions so that they are fully integrated with, and supportive of, sales and service to customers.

Candidates will be qualified accountants with managerial experience in a customer-oriented IT environment - ideally in software - and will have been involved in sales channel contracts. International exposure is strongly preferred.

Applications, please, in strictest confidence, quoting reference number 985/1, to:

AGC Selection, Chancery House, 53-64 Chancery Lane, London WC2A 1QU.

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Finance Manager/Company Secretary

Surrey

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BIBRA International is a research association offering fundamental and applied research and advisory services in the biological sciences to industry and Government. The Association operates a multi-disciplinary Laboratory at Carshalton, Surrey and has a staff of 130, mostly comprised of research scientists and technical support staff.

The Association wishes to recruit a successor to the Company Secretary who is due to retire in May 1997. Reporting to the Chief Executive, you will have the responsibility of providing a full financial and secretarial service to the Association, its Council and Executive Board. Responsibilities will include personnel and may be extended to other aspects of administration.

The position is likely to be of interest to a qualified Accountant or Chartered Secretary with a minimum of

five years' post-qualification experience and capable of working under pressure in a multi-functional role. The Association has entered a period of considerable change. Essential attributes will be the ability to help manage such change, balancing and progressing conflicting business priorities. You should also have excellent communication skills with the ability to relate to directors, scientific managers, external clients and professional advisors.

The Association looks forward to recruiting a suitable candidate for this interesting and challenging role. In return, we offer a competitive salary and benefits.

To apply, please send full CV with covering letter including current salary details to: Personnel, BIBRA International, Woodmansterne Road, Carshalton, Surrey SM5 4DS.

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Finance Manager

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- Monitoring Group interests in joint ventures
- Management of commercial property and certain trading activities
- Assisting and advising Group President generally including personal investments

The successful candidate will already have broad experience including exposure to overseas environments and be used to working on own initiative. He will take over these duties, which are well established and organised, from the Vice-President (also a Chartered Accountant) who is relocating but will still visit regularly.

The remuneration package which is negotiable will include a tax free salary, discretionary bonus, car, accommodation, medical cover and overseas leave with air-fares twice each year.

**SABA NAGLE
INTERNATIONAL**

Please forward applications with CVs to: Michael Nagle FCA, Saba & Nagle International Ltd, 115 Notting Hill Gate, London W11 3JL. Telephone: 0171 727 9278 Fax: 0171 229 2150

Handwritten signature/initials



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Colgate-Palmolive is an USD \$8 billion global consumer products company with operations in more than 75 countries, serving over four billion consumers in 206 countries and territories worldwide.

Our international focus creates opportunities for those who join our New York based audit team. Highly regarded within Colgate-Palmolive, Internal Audit has a proven track record as a major source for Colgate's future business managers, with a career path to international management in either Finance Operations or Information Technology. The team experiences a wide variety of overseas environments and supports subsidiaries in evaluating and improving business practices, processes and control procedures.

We presently seek qualified individuals for the following opportunities:

Our Operational/Financial Auditors are individuals who possess three to six years of financial audit experience with ACA/CPA qualification. International Manufacturing Big Six experience is desirable.

Our Systems Auditors are individuals who possess three to six years of information technology experience with a solid understanding of business processes and operations. Knowledge of SAP R/3 is an advantage.

We want to hear from you if you are a highly motivated team player who is flexible, innovative with strong analytical and interpersonal skills. Excellent oral and written communication skills are essential. It is advantageous if you have a working knowledge of Spanish, French or Mandarin. Approximately 50 per cent of your time will be spent on international travel.

Colgate-Palmolive will be hosting a presentation in London at The Hampshire on Monday, 10th March at 7pm and will be conducting interviews throughout the following week.

Individuals who would like to find out more about these opportunities should contact Janet Arnold ACA at Robert Walters Associates, 10 Bedford Street, London WC2E 9HE, telephone 0171-379 3333, fax 0171-915 8714 or e-mail janet.arnold@robertwalters.com.

Attendance for the presentation is limited. To register, please contact Joanne Kenoett at the above address. Candidates who are currently in the Americas may wish to contact David Hurwood in our New York office on telephone 212 704 9900 or e-mail him at david.hurwood@robertwalters.com.

Colgate-Palmolive and Robert Walters Associates are equal opportunity employers committed to quality through diversity.

ROBERT WALTERS ASSOCIATES



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A challenging and interesting role has arisen within the progressive internal audit function. This is a key management position and represents an ideal platform from which to progress within the finance function or elsewhere within the Group.

The nature of the role is diverse with wide ranging responsibilities which will include:

- Establishment and development of relationships with directors and senior management, including other British American Financial Services companies.
- Planning and managing audits derived from a review of business-wide risk management systems.

- Supporting the divisions in their implementation of enhanced risk and controls management techniques.
- Proactive involvement in investigations, strategic and ad hoc reviews.
- Management and development of a high calibre team.

Suitable individuals will be graduate, qualified accountants with a strong academic record. Excellent communication and team management skills combined with well developed planning and analytical abilities are essential prerequisites.

In return the Group offers a first class package including attractive basic salary, car, financial services benefits and a comprehensive relocation package.

It is essential that candidates have the potential to progress to director level within the Group.

Interested candidates should write enclosing a comprehensive CV quoting reference TG 3GDO to Paul Toner at:

Toner Graham, 8 Imperial Square, Cheltenham, Glos, GL50 1QB.

ALLIED
DUNBAR

EUROPEAN AUDITOR COLOGNE

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As one of the world's best known companies we place a high level of importance on managing our financial affairs. This is why we are now looking for an additional Internal Auditor to join our European headquarters in Cologne.

You will report to the Director of Internal Audit and will concentrate on building up our newly established global internal audit function. We want you to emphasise the need for a proactive, business focussed discipline in the audit process, with a strong emphasis on operational and management issues.

We are looking for someone who will be involved in the whole process of auditing financial and management controls and will be responsible for recommending improvements in our internal procedures.

You will be a graduate and will have a minimum of five years experience in sophisticated audit practices, preferably in a multinational company and will have fluent written and spoken English.

In a high profile role such as this and to feel at ease in our environment you will need to have a high level of professional awareness and excellent communication skills. Salary will not be a barrier to the right candidate.

For more information and to send your full CV, covering letter and salary details to our advertising department, please contact the address below: Tel: 0049 228 89 854 4595. Fax: (0049) 89 854 4595. The above information is for information only. Visit our Internet site - <http://www.campbell-partners.com>

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SONY

Asamera Opportunity in Indonesia



Asamera Oil (Indonesia) Ltd., a wholly-owned subsidiary of Gulf Canada Resources Limited, is seeking a Finance Manager. The Manager of Finance will be responsible for providing financial leadership to staff at Asamera's offices in Jakarta, Singapore and Sumatra, with family located in Jakarta.

Finance Manager

The successful applicant for this position will possess a relevant degree from an accredited college/institution, a professional accounting designation, and have a minimum of 15 years' experience in the oil and gas industry, of this at least seven to eight years must be in a supervisory role. Candidates would be responsible for strategic planning, goal setting, coordinating budget preparation, reporting and analysis of operating and financial results, and evaluating major investment opportunities and strategic options, including cash flow and risk analysis. Candidates should have independent decision-making skills required for the planning, organizing, directing and controlling of work and personnel. International experience is preferred, but not essential.

Qualified applicants are invited to submit their resume by February 14, 1997, to: L. Mistelbacher, P.O. Box 130, Calgary, AB T2P 2H7. Fax: (403) 233-5513 E-Mail: lorraine_mistelbacher@gulf.ca Responses will be mailed only to those applicants who are contacted for an interview. No phone calls please.

Treasury Analyst

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Coats Viyella operates in over 60 countries, with an annual turnover exceeding £2 billion and business interests spanning thread and clothing production, precision engineering, home furnishings and fashion retailing. A vacancy has arisen for a Treasury Analyst to join our Corporate Office in Swinton, Manchester.

You will focus on the provision of analytical support to the treasury team in the management of the group's foreign exchange and debt portfolio. Specific responsibilities will include the evaluation of new financial products and hedging strategies, the supervision of the UK treasury operational centre and adding value to the foreign exchange and cash management practices of the group's subsidiaries. There will be ample opportunity to gain new experience supporting the Deputy Group Treasurer.

Educated to degree level and studying towards ACT membership - if not already a member, you will need a minimum of five years' treasury experience in an international environment and excellent numeracy and communication skills.

If you want to progress your career with a truly international organisation, please apply with full career and salary details to: Nikki Anderson, Personnel Manager, Coats Viyella Plc, PO Box 7, Lees Street, Swinton, Manchester M27 6DB.

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MANAGEMENT

Ron Archer is looking for a senior management job. He has climbed as far as he is going in his current organisation and has combed the ads for months. Suitably vacancies in his specialist area have been few and far between. Just before Christmas he spotted a very promising job and sent his CV and a covering letter to the recruitment consultants who were handling the vacancy.

What happened next, he believes, ruined his chances of getting on the shortlist. "The phone went in the middle of a busy day and it was the recruitment people. At first I thought they were just ringing to make an appointment but then they started asking questions about my current job and experience. After a few minutes I realised I was in the middle of a preliminary interview. I just wasn't expecting it and I didn't do very well at selling myself."

"I'm sure I'd have been more convincing if it had been face-to-face. I wasn't that surprised when I got a letter later telling me I hadn't got to the next stage," says Archer (not his real name). If his analysis of why he failed to get further in his application is correct, he was the victim of a growing trend among companies to whittle down shortlists by using the phone. The attractions of phone interviews for employers are obvious: savings can be made on travel costs, and managers may need to spend less time away from their desks.

But are companies able to make accurate selections using the technique? The preliminary results of one of the first pieces of systematic research on the subject suggest that Archer's hunch was probably correct. Candidates interviewed over the phone are not rated as highly by interviewers as those who are spoken to face-to-face, according to a study by Shell UK, the oil company, with the departments of psychology at the University of Wales, Swansea, and London University's Goldsmiths' College.

Shell wrote to 80 applicants for its 1996 graduate recruitment programme, telling them they would be given two interviews, one by phone and one face-to-face,



Trouble calling: the phone interview gains ground

Many are called

Jobseekers must be ready to be interviewed over the phone, says Diane Summers

and both interviews would contribute to the election decision. About half the group had the phone interview to begin with, while the other half had the face-to-face interview first. All the interviews used the same format but were conducted by different interviewers. The candidates were rated on several criteria and total scores were used to decide whether individuals were invited to the next stage at an assessment centre. Overall, the phone interviews resulted in lower scores, with candidates appearing less prepared, even though they had been told both interviews would



had received little feedback from the interviewer. They suggested that more encouragement should be given in phone interviews and the preliminary chat needed to help candidates get into "interview mode".

The researchers concluded that there were a number of guidelines that interviewers like Archer and advisers - say those helping graduates recruits to prepare for the milkround - should follow:

- Prepare for a phone interview in just the same way as you would for a face-to-face interview. Think of questions to ask the interviewer.
- Make sure you have privacy. Relying on a shared phone in the corridor of a hall of residence could put you at a disadvantage.
- Get yourself in "interview mode" - if necessary go as far as dressing the part.
- Do not worry about silences and take time to think. Do not worry about interrupting or speaking at the same time as the interviewer and, if you do not hear something properly, ask for it to be repeated.
- You might consider pretending that the interviewer is sitting in front of you and smile or use facial expressions in much the same way as you would in a face-to-face interview.

Interviewers in the Shell experiment were more positive about the experience than interviewees. They recognised more quickly when they spoke for too long and several were interested in using phone interviews to improve their performance as selectors.

But, the researchers said: "Telephone interviews should not be viewed as an easy option. Interviewers need to spend just as much time preparing themselves as they would do for a face-to-face interview. It may be tempting to read the candidate's application form during the interview, knowing that the candidate cannot see them doing it, but interviewers need to be reminded that by doing so they are paying less attention to what candidates say."

Selecting Personnel by Telephone. J. Silvester, N. Anderson, E. Hoddlestone, A. Gibb and N. Cunningham-Snell. Paper to the British Psychological Society's 1997 Occupational psychology conference.

The world's big advanced materials producers have been trying for years to develop a better, faster and cheaper method of making ceramic fibres. But it looks as if they have been beaten to it.

A patented process for making the fibres could revolutionise the design of composite materials, which are being used increasingly in everything from aero-engines to tennis rackets.

The process has been developed over the past eight years by Gerry Curran, a UK inventor. A worldwide search for licensees began earlier this month, led by the engineering team at KPMG Corporate Finance in London.

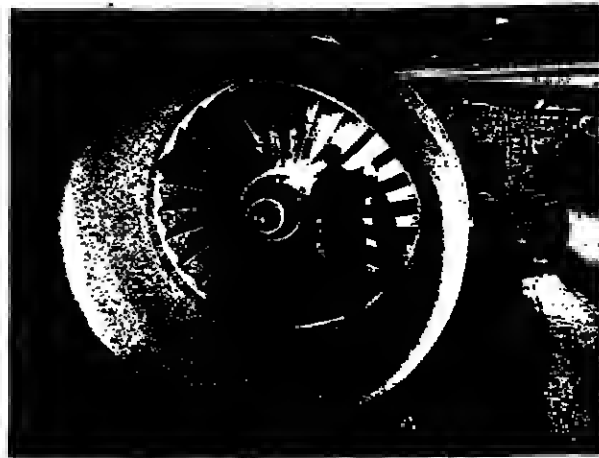
Already though, the process is attracting the interest of big advanced materials, aerospace and industrial companies. Ceramic fibres provide the reinforcement in composite materials, giving them stiffness, strength, and resistance to wear and high temperatures - but at relatively light weights and densities compared with ordinary metals and metal alloys. The "host" material, known as the matrix, can be metal or ceramic.

The main drawback, says Curran, is the risk of a reaction between the matrix and the fibres, which can destroy their ability to reinforce. This limits composites' temperature resistance to about 1,100°C to 1,200°C. It has also required complex manufacturing to coat the fibres with another material that acts as an interface.

Curran's solution is "core-

A tough yarn

Andrew Baxter on the potential uses for a ceramic fibre system



Aero-engine role: more efficient at high temperatures

sheath" ceramic fibres. These are produced by bicomponent extrusion, in which two ceramic precursors or raw materials are extruded through the same orifice.

An example would be a core of silicon carbide, one of the most common ceramic fibres, with a protective sheath of titanium diboride. In an aluminium matrix this

would produce a composite with the strength of titanium at perhaps 25 per cent less weight. "It just wouldn't bend," says Curran.

According to Curran, the new process is significantly quicker than current existing methods such as chemical vapour deposition, in which a fine carbon or tungsten filament is exposed to an organosilicon gas

to produce the fibre. He expects rates of 200m to 300m an hour to be achievable, compared with as little as 16cm to 20cm for some existing ceramic fibres. It also provides a better interface, while the fibre is stiffer, stronger and significantly lighter than its existing counterparts, and has higher heat resistance, possibly up to 1,600°C to 1,700°C.

This property in particular could give the new fibres an important role in aero-engine composites. The hotter a gas turbine can run, the higher its efficiency in terms of thrust or power produced for a given amount of fuel, while lighter materials improve the thrust-to-weight ratio.

There could also be many applications in the auto industry, says Curran, ranging from engine valves to pistons in aluminium cylinder blocks.

Large-scale manufacturing of such materials is a "big boys' game," says Andy Hales, partner at KPMG. The big attraction of the process, he says, is its "double-whammy" effect. Unlike some new products, Curran's fibres are both better and cheaper to produce than existing types.

Curran and KPMG, assisted by Bird & Bird, intellectual property lawyers, and Wolff & Lunt, patent attorneys, are keeping an open mind on how to license the process.

"There are a number of variations on a theme," says Hales, and the search for licensees could take several months.

Early blood clot catcher

A new test for detecting blood clots at an early stage of development may make it easier to catch patients at risk of stroke or heart attack.

Thrombus Precursor Protein, known as Tpp, has been cleared by the US Food and Drug Administration and is expected to be launched later this year, according to American Biogenetic Sciences, the US biotechnology company which developed the technique.

The test, which was found to be 97 to 100 per cent

accurate in some clinical studies, detects elevated levels of soluble fibrin polymers, which are the immediate precursors of insoluble fibrin, the main component of a thrombosis or blood clot.

According to the company, existing tests for thrombosis are less specific and do not catch the critical early stage of the development of a thrombosis.

According to the American Heart Association, 58m Americans have some form of

cardio-vascular disease. Thrombosis is associated with a wide range of conditions, including stroke, unstable angina, deep vein thrombosis and pulmonary embolism.

Because early detection of thrombosis can facilitate treatment and so prevent the thrombosis from causing a heart attack or a stroke, the test is potentially lifesaving. It may also reduce costs by eliminating unnecessary treatments and reducing the number of surgical procedures performed at a

later stage of illness. As well as assessing patients' risk of thrombosis, the test is designed to monitor the efficacy of anticoagulant therapy, administered during or after surgery.

In particular, any surgical procedure involving the circulatory system, such as balloon angioplasty or coronary bypass, carries a high risk of thrombosis.

The company has licensed the test to Abbott Laboratories and Roche.

Tracy Corrigan

Recently qualified Accountants

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During the formative years of your career our environment will engage your intellect and extend your financial and management skills in many different directions. Wherever you start - audit, financial control, or financial accounting - you will not be pigeon-holed. Career development can take you into different functions, advanced specialities like tax, internal consulting roles and business management.

We operate in one of the world's fastest-moving commercial sectors. Success depends on a process of continuing change and evolution. Whether we're launching new products, entering a new territory or investing in the world's most sophisticated commercial information systems, finance has an integral role to play - as an enabler rather than a controller. Significant decisions about business direction are tackled by bringing together exceptional finance people in dedicated project

£30,000 - £40,000 and excellent benefits

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ARTS

Fanfare for a modest composer

Schubert's bicentenary is being celebrated by András Schiff, reports Richard Fairman

The marketing department is in a spin and the press office groans with despair. What hope is there for promoting this talented young composer, when he looks so unphotogenic, turns down a chance to appear on the National Lottery show and does not even write the kind of music that the three tenors could perform on their next world tour?

Thank heavens Schubert was born in 1797, not 1997. It is difficult to see how this plain, bespectacled, very private man, with his fondness for intimate musical evenings, could have made any headway for himself in an age dominated by the mass media. Nothing about him was calculated to attract popular attention. Through his music he tells us as clearly as could be that he was a one-to-one person, expressing himself most easily in the personal forms of the string quartet, the piano sonata and - above all - song.

Tonight - 200 years after his birth, his bicentenary will be marked on an appropriately modest scale. BBC2 will repeat

its historic film of his song-cycle *Die Winterreise* in the performance by Peter Pears and Benjamin Britten; and the Wigmore Hall will present a special "Schubertiad" (the name given to the convivial musical evenings held by Schubert and his friends), bringing together some of the world's leading musicians for a typically varied programme of his chamber music, under the artistic directorship of the pianist András Schiff.

In recent years Schiff's championing of Schubert has been second to none. With the bicentenary in view, he has already recorded the piano trios and what is believed to be the first ever complete set of the non-sacred choral music under his new contract with Teldec, part of Warner Classics. Meanwhile, his *OmniBus* profile

of Schubert on BBC1 last week won praise for its calm thoughtfulness at a time when too many arts programmes have resorted to selling their subjects downmarket.

Schiff agrees it is an irony that such a self-effacing composer should arouse such intense public interest at the end of the 20th century. "He is popular and getting more popular. More of his music is being heard by more people than ever before," he says. "The Schubert image has changed dramatically in the last 20 or 30 years - for the better. There was a very false Schubert image before, which portrayed him just as a composer of pretty tunes, sentimentality and kitsch. All right, Schubert was one of the great melodists of all time, but

you can't take the melodies out of context."

It did not help that for the best part of a century only a small proportion of his music tended to get heard. "Great music needs to be played by great performers," observes Schiff. "That is how it survives. Everybody knew that Schubert wrote 600 songs, but they were happy to sing 50, if that. And while great singers did go on singing some Schubert, great pianists did not play him. Liszt, probably the greatest pianist of all time, made transcriptions of the 'Wanderer' fantasy and some of the songs, but never played the piano sonatas. People complained they were too long."

Schiff sees Schubert as the last link in the Viennese line of classical composers. "His piano music, for example, doesn't appeal to pianists of the high

romantic school, because it doesn't have enough notes in it. Schubert wasn't a stormy virtuoso himself, but I am sure he played the piano beautifully, because he couldn't have written with such sensitivity for the instrument otherwise. It was a singing, cantabile way of playing - which is also a kind of virtuosity, but not in the vulgar sense, where it means playing loud and fast and without any wrong notes. That's just a mechanical dexterity, which is very much a product of modern-day technology."

All told, the outlook for Schubert in 1997 is probably as good as it has ever been. His music has shown its capacity to survive some fairly major social changes, not least the death of the Schubertian. The tradition of making music in the home disappeared with the television

era ("why do you think there aren't any more songs being composed?", asks Schiff) and performances of his chamber music these days happen on a far more public scale.

"At least we have the Wigmore Hall", says Schiff, looking forward to tonight's concert. "That is an ideal place to hear this music and I think there is probably more Schubert at the Wigmore than any other composer. But even where there are smaller halls, you often get the answer that making music in them isn't economical. That means that if performers are invited to play there, they shouldn't expect the same fee as they get somewhere ten times the size. We, the musicians, must help keep this tradition alive."

There is also the question of cultural changes. In the next century many of the listeners

coming to Schubert's music are likely to be far removed from the Austro-German cultural background that fostered him. "The example of London and the Wigmore Hall, which has the world's biggest and best series of Lieder recitals, is so important. Nowhere else outside the German-speaking countries can you find this. There is a very strong barrier, a linguistic one, that explains why audiences in France, Italy or the US don't want to hear this repertoire."

For posterity, as Schiff points out, it is actually a good thing that Schubert remained such a private figure. "We say how sad it is that he was lonely, that he never married, never had children, never held any public position, but that meant he had time to compose. Through the music that he left us, we can come close to him today and at the same time discover his unique sense of peace and harmony, which I believe is a basic human need - for all generations and for all time."



Lack of faith: Jane Gurnett and Richard McCabe in the RSC's new production of 'Three Hours After Marriage'

Theatre/Alastair Macaulay

Comic business goes to pot

Why revive a rare play unless you believe in it? The Royal Shakespeare Company's production of the 1717 comedy *Three Hours After Marriage* is a plain example of lack of faith. Director, designer, composer, and actors: all seem to have decided that the play needs comedy, and they have turned it into a standard collection of stale comic devices. Most of the acting is designedly poor - the kind of hollow acting that, as in Christmas pantomime, invites you to laugh at it and at its material - and part of the audience responds cheerfully. This play itself suffers.

This kind of cheap-minded staging is two-a-penny, mind you, but it is dismaying to see the Royal Shakespeare Company - a company which, by its very name, ought surely to be primarily

concerned with bringing honour to texts - condescending so trashily to a play whose original authors include Alexander Pope and John Gay. Anyone interested in the work of those two celebrated authors should stay far from this production. *Three Hours After Marriage* is a modest comedy, and its central plot is at least two thousand years old. A decrepit old man (Dr Fossil) marries for the first time; his bride (Susannah Towleley), is a pretty young woman with suitors of her own age. Pope, Gay, and their contemporary, John Arbuthnot, made this a mix of bawdy farce, social satire, and - eventually - tender comedy. The farce reaches its climax as the young wife's suitors turn up in disguise that appear to be scholarly husbands: a stuffed crocodile and an Egyptian mummy. The social satire is

principally in the sub-plot: the old husband has a niece with high literary pretensions. As for tenderness: the old man learns more lessons than one - he learns, as the play closes, kindness of heart. The fun of the satire about female writers is obviously aimed at the several female scribes of the post-Restoration era (Aphra Behn et al), some of whom the RSC has honoured before now. So what do the director, Richard Cottrell, and his designer, Tim Goodchild, do? They put it into Victorian dress. The female scribe spouts 18th-century classical nonsense which, in costumes of the Brontës or George Eliot's era, would flat even if they were tolerably acted. Unfortunately, Alison Fiske - seldom a tolerable actress at the best of times -

here trots out her hammiest line in artificial absurdity, with vocal leaps and swoops of the most blatant type. But all the acting here should be avoided by connoisseurs. Jane Gurnett, as the bride, is the least terrible. She brings real good manners to a play that cries out for them, and to a production otherwise devoid of them. Clive Francis, as her old husband, has two brief but lovely moments near the end when he shows real humanity and warmth. In general, however, it is his performance and Richard McCabe's (in the role of Plotwell) that condescend most cheaply to the play and to the audience: they add 20th-century lines ("Jolly nice", "A little something I picked up in Poland") even in those rare sections when they are pretending to play in character. By the time one of them

referred to the fact that this was press night, you knew they trusted neither play nor production, nor each other. As Underplot, Adam Godley is virtually as bad, and much more callow: as he says, "Whoops!" The RSC's already gruesome musical policy goes from bad (most of its other productions) to worse (here). Mark Warman, adding some clodhopping quotations from Chopin and Saint-Saëns to his basically failing comedy scores, literally orchestrates most bits of comic business and thereby robs them of all spontaneity. No doubt some people will have found the production more amusing than I did; I certainly hope so. But can anybody explain what business the Royal Shakespeare Company has in presenting it?

In RSC repertory at the Pit, Barbican Centre.

Clowns and poltergeists

Nowadays, some of the best physical theatre happens under the banner of the London International Mime Festival. Théâtre le Ranelagh is a Franco-Russian clown company which seeks to reconstruct an era of strolling players and clumsy burlesque. Its clowns are shown in ride costume horses and engage in requisite bouts of slapstick comedy, a little juggling, the odd tumble. None of this is particularly amusing or touching: these are clowns towards whom it is difficult to feel any compassion or empathy.

Like its cast, *Sur la Route de Stienne* (a version of *Romeo and Juliet*) is heavy with its own self-satisfaction. The performers relentlessly milk applause for the most minor feats. Between the tiresome bouts of clowning, Romeo and Juliet emerge as comic book figures, victims of some cruel joker who decided that the couple's primary means of expression should be dance. In an excruciatingly bad approximation of ballet, the lovers engage in one pas de deux after another. While Romeo is hopelessly effeminate, Juliet graduates from

gangly child to feather-brained shrew. Ironically, in a show which favours crude overkill for effect, the one or two finer moments are achieved through the most simple of ideas: the manipulation of a pair of clear, plastic sheets to simulate stormy seas; the three bungee aerialists who bob up and down to the sound; and the extravagant costumes.

Théâtre le Ranelagh could learn a lot from the economy of means demonstrated by British company Improbable Theatre. In a new show, *70 Hill Lane*, Improbable's Phehim McDermott, Guy Dartnell and Steve Tiplady are masters of improvisation who conjure theatrical material - a sense of time, place and drama - out of thin air. Armed with just a few rolls of sticky tape, some metal posts and a couple of newspapers, and assisted by Ben Park's live musical accompaniment, the performers lure us into McDermott's childhood home - the Manchester address of the title - where the frightening and disruptive antics of a poltergeist are relived. "Polty's" games

with flying objects are marvellously suggested by small items on a horizontal line of tape. As the central character and narrator of his own tale, McDermott confirms his talent for comic acting. But the assistance offered by Dartnell and Tiplady is also crucial to the show's success. At one point, Dartnell, as McDermott's father, almost hijacks the show with a full-throated, Cowardesque ditty, "I'm worried about the boy", in which he laments his son's effeminacy.

Fact and fiction merge so seamlessly in *70 Hill Lane* that you begin to wonder whether McDermott himself might have harboured the ghostly force he now describes in retrospect. Added to this, the show's generous helping of poetic licence - "my father was nothing like that," states McDermott, matter-of-factly, after Dartnell's outburst of song - supplies both irresistible humour and fascinating doubt to the larger picture.

Sophie Constanti

70 Hill Lane tours to West Yorkshire Playhouse, Leeds, February 4-8 and Battersea Arts Centre, February 11-23.

Theatre Play on old rope

The Salisbury Playhouse declared its refurbishment complete last week with a gala "re-opening" to coincide with the official first night of Gareth Armstrong's production of a puzzlingly hardy perennial, *Rope*. Patrick Hamilton's 1929 play is something of a curio now, despite making periodic reappearances on the stage. As two brilliant Oxford undergraduates do away with a third and throw a Mayfair supper party on the chest which conceals his corpse, the author - and, indeed, the director - succeed only uneasily in blending the amoral superman, discreet homoerotic tension and the period's primitive version of camp: the only spontaneous applause came on the exit of Patricia Kane's gormless, tongue-tied comic turn, Mrs Debenham, and reference to a guest having fagged for one of the

murderers at school are dispensed with a nudge-nudge. Armstrong renders the homosexual bond of the central duo discreetly visible, though little more: jackets are flung aside and ties loosened in the second act, but the unexpected re-entry of their old housemaster hardly qualifies as *coitus interruptus*. Nor is there any palpable sense of a similar, latent attachment between the older man, Rupert Cadell, and Brandon, the dominant half of the homicidal pair. Geoffrey Abbott begins his portrayal of Brandon at an awkwardly high level which seriously limits his opportunities for progression. Jasper Britton as Rupert is

similarly constrained by the script: a poet by trade and a social gadfly by nature, hobbling around on a gammy leg and compelled to play the sequence of greatest dramatic tension, the uncovering of the dark deed, through an ever-greater haze of drunkenness, Britton's Rupert makes up in Byronic finesse what is forbidden to him in subtlety. When Alfred Hitchcock filmed *Rope* in 1948, he rewrote the script bringing the story much closer to that of the Leopold and Loeb murder case of 1924, which may or not have been Hamilton's original inspiration. The play itself now seems andily creaky and the entertainment sags under the awkwardly distributed weight of the moral and philosophical content.

Ian Shuttleworth

Salisbury Playhouse until February 8 (01722-320833).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Nua Cheng: the pianist performs works by Shostakovich, Beethoven, Schumann and Liszt; 2.15pm; Feb 2

EXHIBITION

Van Gogh Museum Tel: 31-20-5705200
● Sir Lawrence Alma-Tadema: retrospective exhibition of the work of the painter Lawrence Alma-Tadema (1836-1912), who was born in the Netherlands, but settled in London in 1870. In Victorian England he became popular for his idealised, but accurately detailed and colourful scenes of Greek and Roman life. The exhibition features some 70 paintings and a selection of watercolours from international collections; to Mar 2

ATHENS

CONCERT

Athens Concert Hall Tel: 30-1-7282333
● Janáček String Quartet: perform works by Dvořák. Part of the From Brahms to Dvořák Chamber Music Festival; 8.30pm; Feb 4, 5

BOLOGNA

CONCERT
Teatro Comunale di Bologna Tel: 39-51-529901
● Orchestra del Teatro Comunale di Bologna: with conductor Vladimir Jurowski, violinist Ilya Seldner, mezzo-soprano Svetlana Sidorova and the Coro del Teatro Comunale di Bologna perform works by Glinka, Prokofiev and Nevsky; 8.30pm; Jan 31; Feb 1

BRUSSELS

CONCERT
Palais des Beaux-Arts Tel: 32-2-5078200 (Concerts)
● Deutsche Kammerphilharmonie: with conductor Frieder Bernius and the Kammerchor Stuttgart perform works by Schubert; 8pm; Feb 3

CHICAGO

THEATRE
Steppenwolf Studio Theatre Tel: 1-312-3351888
● Fur by Cruz. Directed by Ralph Flores and performed by the Latino Chicago Theatre Company. The cast includes Consuelo Allen, Marilyn Dods, Frank and Paul Esparráz, Wed-Fri 7.30pm, Sat 4.30pm & 8.30pm, Sun 2.30pm; to Feb 9

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery Tel: 44-131-5588921
● Double Vision: exhibition devoted to stereoscopic photography, first developed in the 1850s. The images, which can be seen through hand-held viewers, include panoramic views, portraits and humorous scenes; to Feb 23

FRANKFURT

CONCERT
Alte Oper Tel: 49-69-1340400
● Dietrich Henschel and Fritz Schwegler: the baritone and pianist perform works by Schubert. Part of the Schubert-weekend; 5.30pm; Feb 2

HAMBURG

CONCERT
Musikhalle Hamburg Tel: 49-40-346820
● Philharmonisches Staatsorchester Hamburg: with conductor Markus Stenz perform works by Debussy, Boulez, Busoni and Varèse; 8pm; Feb 2, 3 (11am)

HANOVER

EXHIBITION
Sprengel Museum Tel: 49-511-168375
● Garten der Frauen. Wegbereiterinnen der Moderne in Deutschland 1900-1914:

exhibition focusing on the work of seven female artists who were among the forerunners of the modern art movement in Germany at the beginning of the 20th century. The display includes more than 70 works by Paula Modersohn-Becker, Gabriele Münter, Marianne Weirich, Erna Bossi, Clara Rilke-Westhoff, Käthe Lassen and Otilia Freylander; to Feb 9

LONDON

CONCERT
Wigmore Hall Tel: 44-171-9352141
● Sophie Daneman, Nathan Berg and Eugene Asti: the soprano, baritone and pianist perform works by Mendelssohn; 11.30am; Feb 2

NEW YORK

CONCERT
Carnegie Hall Tel: 1-212-247-7800
● Itzhak Perlman and Daniel Barenboim: the violinist and pianist perform works by Schubert; 8pm; Feb 3

PARIS

CONCERT
Théâtre des Champs-Élysées Tel: 33-1-49 52 50 50
● Alban Berg Quartet: perform works by Schubert. Part of the Schubertiade; 8.30pm; Feb 4

ROME

CONCERT
Teatro dell'Opera di Roma Tel: 39-6-481801
● Elektra by R. Strauss. Conducted by Vladimir Fedoseyev, performed by the Opera di Roma. Soloists include Elisaveth Meyer-Topsoe and Anne Gjevang; 8.30pm; Feb 4

VIENNA

CONCERT
Wiener Staatsoper Tel: 43-1-514442980
● Capriccio by R. Strauss. Conducted by Peter Schneider and performed by the Wiener Staatsoper. Soloists include Felicity Lott and Margaretha Hiltnermeier; 8pm; Feb 3

WIGMORE HALL

CONCERT
Wigmore Hall Tel: 44-171-9352141
● András Schiff: the pianist performs works by Schubert; 8pm; Feb 3

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COMMENT & ANALYSIS



Philip Stephens

One system fits all

Even before Hong Kong has been handed over, Beijing has begun its assault on the territory's western values

Officially, there are another 150 days before the British territory of Hong Kong returns to Chinese rule. But after a delay of 150 years, Beijing has grown impatient of the hours. It will not wait until the final lowering of the colonial flag at midnight on June 30. It is starting now to unstick the fabric of liberty and law which has clothed Hong Kong's extraordinary success.

China cannot be accused of hiding its intentions. During the past few weeks the Beijing-sponsored Preparatory Committee has unveiled plans to amend or repeal 26 of Hong Kong's existing laws. Nor is it an accident that all the important changes will curtail individual liberties.

Thus the Bill of Rights, which bestows on the citizens of Hong Kong the guarantees enshrined in the international covenant on civil and political rights, is to be emasculated. The public order act will be amended to restrict protests and demonstrations.

A new societies ordinance will bar Hong Kong's political leaders from association with parties outside Hong Kong. The western rule of law, in other words, is to give way to Confucian social order. Politics and subversion are suddenly synonyms.

The Preparatory Committee, it seems, has found a willing ally in Tung Chee-hwa, Hong Kong's chief executive designate. Mr Tung has been chosen to replace Chris Patten, Britain's last colonial governor, on 1 July. But those who imagined his role might be to speak up for the interests of Hong Kong in Beijing rather than vice-versa have been disabused.

He has vigorously defended the proposed limits on liberty. It would be dangerous, he remarked last week, if the community became too "politicised". It was time to tilt the balance

in Hong Kong from individual rights towards responsibilities. He had little time for western critics: "We are going to find our own way forward, but it may not be the way you like."

Mr Tung has good cause perhaps to be grateful to his new masters in China. His international shipping empire was hailed out by Beijing when it ran into financial trouble in the early 1980s. The local Communist party is well-represented in his entourage.

He has the support of much of the ethnic Chinese business community. Money is well-represented on the provisional legislative assembly which will displace the present, elected body after the transfer of sovereignty. Hong Kong's millionaires have turned their gaze from the wider world inwards to China. That is where they expect to make their profits in future, and they know they will have to play the game by Beijing's rules.

This week's alliance between the Chinese Communist Party, China's main investment vehicle, and Hong Kong's China Light & Power represented another piece in a jigsaw of deals which has pulling down the economic boundaries even before the handover. Hong Kong's transition to a Special

Despite pledges of economic autonomy, the promised level playing field for international business is already strewn with rocks

Administrative Region of China was not supposed to compromise its economic autonomy. But the promised level playing field for international business is already strewn with rocks.

Unsurprisingly, the planned assault on Hong Kong's freedoms has drawn strong protests from Mr Patten. The Preparatory Committee plans to reconvene in Beijing today. In the hope it might yet reconsider, Mr Patten yesterday issued a lengthy statement outlining the risks to the territory's future, not least to its position as a regional centre for international capital and investment.

Sour grapes, some say. After all, Mr Patten has been at odds with China almost from the moment of his arrival in 1992. But this time, the controversy transcends personalities. The governor's words have been echoed by the Hong Kong Bar Association and by the Law Society. Neither could be described as a hotbed of radicalism. Yet the former found it necessary to remind Mr Tung of some fairly elementary principles.

"The rule of law does not merely mean that there is a body of law by which the people will be ruled," the Association said in a letter to the chief executive-designate. "The rule of law also means the process of making and repealing law is open, reasoned and in accordance with the law. If not, those in power can make or change law at a whim and it will become rule by the people in power." Sadly, it is a distinction little understood in Beijing.

For once, Hong Kong's usually docile Chinese-language press has also felt driven to protest. The warring of outspoken legislators such as Martin Lee and Emily Lau suddenly do not seem quite so fanciful. If China ever meant to keep its promise, made in its 1984 joint declaration with

Britain, to safeguard Hong Kong's way of life for another 50 years, it appears now to be suffering from a serious bout of amnesia.

Outside Hong Kong, however, the protests have been muted. True the UK's foreign office has called in the Chinese ambassador in London to register its disapproval. And Malcolm Rifkind, the foreign secretary, has indicated that Mr Patten speaks with his support. The State Department in Washington has voiced parallel concern. But this is pre-emptive stuff.

John Major has an election on his mind. Such is the preoccupation with votes in Britain rather than liberties in Hong Kong that his government has so far refused even to offer passports to the several thousand people who will be left stateless after the handover. The prime minister may be forced to relent on this narrow point. We must hope so. But I detect no stomach for a confrontation with China.

The MPs at Westminster, who so often remind us it was Britain which gave the world democracy, have uttered not a word of reprimand in recent weeks. They are too worried about keeping their seats at the election. As for the Labour party, preening itself as the government-in-waiting, discretion in such matters has become a way of life.

Perhaps we should not be surprised. It was probably naive to expect a regime such as that in Beijing to keep its word. It has always planned for one country, one system.

And the moral dimension in international affairs has gone out of fashion. China is big business. Public hand-wringing interferes with what the Americans call "constructive engagement". In which case Britain should stop deluding itself. There is no honour to be claimed in this, its final retreat from empire.

LETTERS TO THE EDITOR

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'Catching up' argument no basis for a BA/American alliance

From Mr Richard Branson.

Sir, Michael Skapinker recently points out that opposition to the proposed British Airways/American Airlines alliance is growing all the time ("Alliances are in the air", January 25/26). No doubt BA's public relations machine has been active, spreading what can only be described as misleading information about the alliance's supposed benefits.

Unfortunately, some of this misinformation crept into your article. BA's claim that it is merely catching up with its European competitors is nonsense. BA was one of the first European airlines to form a transatlantic alliance, through its investment in USAir.

Even disregarding that alliance, the point is that BA's effective merger with American is out of all proportion to other alliances. The Office of Fair Trading has concluded the key relevant market for the merger is that between the UK and

US (not that between Europe and the US as BA consistently alleges) and here BA/American will be totally dominant.

You point out that BA's previous transatlantic alliance with USAir has not been as productive as those of its rivals. Whose fault is that? Enough commentators at the time pointed out the risks of investing in a high-cost airline such as USAir which was facing increasing domestic competition.

What is worrying is the way BA and the UK Department of Transport have unnecessarily linked the BA/American alliance and negotiations for a more liberal bilateral air service agreement. This puts the UK in a weaker negotiating position and risks producing a deal which is not in the UK's overall interests, especially if the alliance with American follows the example of so many others and lasts for only a short period.

The key difference

between BA's alliance with USAir and American is not the greater access the latter gives to the important US domestic market, but the immunity from competition laws which BA and American are seeking in the UK, US and Brussels.

What the two want to do is something which would otherwise be illegal - for example, to collude in fixing fares. Given that it is very difficult, because of airport congestion, for other airlines to mount effective competitive services, the inevitable result will be higher fares and poorer services. The weak, tentative proposals by the OFT to force BA/American to divest a few Heathrow slots will make no real difference.

This is an alliance too far. It should be stopped now.

Richard Branson, chairman, Virgin Atlantic Airways, 11 Holland Park, London W11 3TH, UK

Politically (in)correct

From Mr Markus D. Niederhanser.

D. Niederhanser.

Sir, Notwithstanding anything that has been said, will be said, and will be discovered about the debatable or downright wrong way in which the small country of Switzerland - its government and its people (this being a direct democracy) - resolved a certain number of conflicts of interest once it had decided to take up the gauntlet thrown by Nazi Germany, rather than have itself invaded without much of a pretence of a fight, and therefore eventually had to live with an occupying force upon which all evil can be blamed, but with a threatening enemy all around its borders which conditioned its sovereign acts, would you please explain how you come in your leader "The Swiss" and the Holocaust" (January 27) to say that there is an element of "blackmail" in certain demands made on Switzerland and in the associated hint of boycott?

Are you not aware of the fact that the politically correct have started an almighty row because then (1986) president of the Swiss Confederation has used similar words? Be that as it may, I am looking forward to reading in one of your forthcoming editions about a suitably worded outcry from the politically correct in protest against your devious insinuation.

Markus D. Niederhanser, Chemin de la Ramaz, Les Turleries, CH-1422 Grandson, Switzerland

Good prospects for those with diabetes

From Professor Jak Jervell.

Sir, Genetic discoveries with the potential to prevent diabetes in the future are indeed exciting ("A promising genetic path", January 30). However, your article offers an unduly hopeless scenario for those who are living with diabetes today.

To state that people with diabetes "... manage only to stave off serious ill health for a while" is simply not true. With good management people with both insulin

dependent (Type I) and non-insulin dependent (Type II) diabetes are living long, active lives and are no longer predestined to suffer serious complications.

The focus must be on the millions of people who, through poverty or a lack of awareness about the disease, do not have access to the necessary education and treatment.

In a number of countries diabetes is mistakenly perceived as a contagious or

addictive condition which leaves people with diabetes facing social discrimination. In many developing countries people with diabetes simply die undiagnosed or cannot afford the necessary treatment.

Jak Jervell, president, International Diabetes Federation, 1, Rue Defacqz, B-1000 Brussels, Belgium

Revival of Nepalese dam project resurrects concerns

From Mr Chris Underhill.

Sir, It was with very considerable alarm that I read your article "Revival of Arun dam project sought" (January 27).

The original opposition to Arun has been frequently misrepresented as being purely environmental. In fact, many groups both inside and outside Nepal were equally concerned about the load it would put on the national budget;

about the technical and economic viability of the scheme; and about its limited impact on poverty, given that all of the power was destined for the existing grid, which reaches only 10 per cent of the population.

In particular, we felt that the execution of such a large scheme by foreign contractors could stifle exciting developments of indigenous capacity in Nepal to de-

velop its own hydropower. These factors led us to argue that the project was an inappropriate use of World Bank money - a point of view with which the bank finally concurred.

While private finance may alleviate stresses on the Nepalese government's budget, it will do little to address the other issues raised by Arun.

Any future process of consultation would be well-

advised to revisit the valid questions raised by local Nepali groups when the project was first proposed, rather than dismissing them off-handedly as the environmental hang-ups of a "deep-green" international lobby.

Chris Underhill, chief executive, Intermediate Technology, Myson House, Railway Terrace, Rugby CV21 3HT, UK

Europa • Grigory Yavlinsky

A chain of calamities

The west must recognise that the failure of Russian reforms has created new dangers



A few months ago the press reported the death of Professor Vladimir Nechail, director of the Federal Nuclear Centre, a top-secret city founded in 1958 to construct and maintain the former Soviet Union's thermonuclear weapons. The director did not die of natural causes; he shot himself.

Mr Nechail committed suicide because a lack of money meant he could no longer ensure the safety of the operations or pay the staff. He wanted to draw the world's attention to the threat to the safety of nuclear weapons in Russia. Several months have passed but nothing has changed.

This is not an isolated event. During November and December last year, nuclear power workers went on hunger strike at the Leningrad atomic power plant and elsewhere to secure payment of their salaries. And with Russia's soldiers not being paid, the sale of modern weapons to all sorts of undesirable people becomes inevitable.

This poses a serious danger to the Russian people which the ruling oligarchy is unable to avert. However, the scale and nature of the dangers that have emerged as a result of the failure of reforms in Russia should also be recognised by western leaders.

The west can comfort itself with the knowledge that Russia is unlikely to return to communism. But does this mean that democracy and free markets will prevail? The answer is no. New menaces to both Russia and the west are emerging. These are:

- The loss of control over nuclear weapons, nuclear materials, and other weapons of mass destruction.
- The development of a breeding ground for terrorism and organised crime.
- A high probability of large-scale environmental disaster.

Against these threats, the west's defensive measures are completely misdirected. Nato was effective as a means of preventing war in Europe, but it is not adequate for addressing the new challenges of controlling nuclear weapons, thwarting international terrorism, curbing organised crime and avoiding global environmental catastrophe.

Tragically, the current "transition" in Russia raises precisely these concerns. Far from creating a market economy and a political democracy, Russia has formed and consolidated a semi-criminal oligarchy. This malign structure was already largely in place under the old communist system: after communism's collapse it changed its appearance, just as a snake sloughs off its skin.

The perception that the "transition process" was started by a reformist government trying to move Russia from socialism to capitalism is only partially true. Old Soviet monster monopolies were left untouched, private property rights were not implemented, competition was rejected. The nomenklatura seized control of the government and Russia's resources jointly with the underground economy and the criminal world.

The new ruling elite is neither democratic nor communist, neither conservative nor liberal, neither red nor green. It is merely greedy and rapacious.

It cannot tackle important social and economic questions, only those that affect its own short-term power and its property. It is unable to deal with the grave security threats. In fact, it exacerbates them.

The Russian economy was not just damaged by central planning; it was created by central planning over the 70 years of communism's uncontested reign. The absence of institutional changes during the transition to the market has inevitably created an economy of a semi-criminal nature which prevents industry's development.

As a result, economic potential is squandered and government revenue squeezed. Thus the tragedy in Svezhinsk was not a reflection of purely temporary difficulties, it was a link in a chain of calamities.

What is to be done? The creation of self-regulating mechanisms that might improve the situation would be a start.

The market is the most important such mechanism. But a market economy must be based on private property and competition. In Russia, this cannot work properly because there are no genuine private property rights and rules of competition.

If one knows that one's purse may be stolen at any moment, all one's energy is devoted to protecting oneself from this threat. Similarly, if a would-be businessman knows that everything he

creates is likely to be stolen, he will produce only for himself and his family. Under such circumstances there can be no division of labour and no economic progress.

How, then, can the vicious circle of criminalisation and corruption be broken? There are no easy solutions.

First the monopoly of the oil and gas barons, the only ones who generate profits, must be broken up. But also needed are a radical decentralisation of power, land reform, increased competition, free trade, judicial reform and the creation of a civil society based on a free and independent press. The development of natural resources should be controlled by production-sharing laws, which would allow the state and local communities to share in the benefits.

Meanwhile, the limited governmental capacity available should focus on comprehensive reform of the tax system, as well as establishing savings and insurance funds to channel money into long-term investment projects. Government endeavours should be rewarded for success in promoting economic growth.

Yet the likelihood that President Yeltsin and his government would bring about even such modest changes is low. If they understood what needs to be done, there would be far less of a problem.

Russian people and western leaders must understand the dangers they confront. They should abandon their complacency about Russia and its supposed transition to a market economy. We all need to worry about the common menaces we face and the criminal state that is emerging from the ruins of the Soviet Empire. Our vital interests coincide.

The author is leader of the liberal Yabloko party and chairman of the Centre for Economic and Political Research

BUILD, OWN, OPERATE, TRANSFER (BOOT)
EXPRESSION OF INTEREST FOR VADODARA-HALOL ROAD PROJECT

Infrastructure Leasing & Financial Services Limited (IL&FS), on behalf of the Government of Gujarat (GoG) is seeking Expressions of Interest (EOI) from experienced companies/joint ventures ("Applicants") to build, own, operate and maintain the Vadodara-Halol road project on a commercial format, to collect tolls including the design and implementation of an adequate toll collection and management system and to transfer the project to the GoG at the end of the concession period.

PROJECT

Gujarat is among the highly industrialised states of India and today maintains an eminent position on the economic map of India. Vadodara-Halol is a State Highway (SH87) link road connecting Vadodara, the second largest industrialised city in the State of Gujarat, to Halol, an industrial hub of Vadodara. The project road extends from km 8/300 at the intersections of SH87 with Vadodara bypass (National Highway 8 bypass to Vadodara city) and ends at km 40 at the start of Halol bypass. The project road primarily caters to industrial and goods traffic movement and passenger work trips to and from Vadodara to Halol. The project road also provides the shortest link for long distance industrial and goods traffic moving from Bombay and other parts of Western India to parts of Northern and Central India.

SCOPE

Project scope entails strengthening the existing 2-lane carriageway and widening it to a dual 2-lane carriageway along with the provision of service roads. Length of the project road is 32 kms. The project is proposed to be implemented on a BOOT format, with recovery of investment proposed through a levy of tolls.

STATUS

IL&FS is assisting GoG in preparing a detailed feasibility study for the project, which would examine the techno-economic, environment and social, and commercial viability of the project as well as the risks associated with it. The draft feasibility report has been received and will be finalised by January 31, 1997. IL&FS will also assist GoG in raising finances for the project. Land acquisition for the project is underway. The World Bank has been involved in the preparation of this project and the project could be eligible for financing under the line of credit from the Bank to IL&FS. The project will be domiciled in a Special Purpose Vehicle which would be set up with equity participation from GoG, IL&FS, selected Applicant and others. The SPV and GoG will be responsible for obtaining all the clearances for the project. The legal framework has been amended by the GoG to allow for the levy and collection of toll on widened and strengthened sections of State roads. The GoG proposes to utilise this approach for implementing other road projects.

EXPRESSION OF INTEREST

Potential qualification will be open to Applicants: (1) from eligible countries as defined in the Guidelines: Procurement under IBRD Loans and IDA Credits, and (2) who provide an Expression of Interest (EOI), as described below.

The Feasibility Documents may be purchased from IL&FS at the address given below. The Applicant must make a written request for the Feasibility Documents and include payment of Rs. 10,000 or \$US 300. The written request must state: "Request for Feasibility Documents for Vadodara-Halol Road Project". With the Feasibility Documents, IL&FS will also provide preliminary qualification criteria and further instructions for potential Applicants. GoG/IL&FS request the potential Applicants to provide written comments concerning the preliminary qualification criteria. Comments concerning the Feasibility Documents will not be considered at this time.

GoG/IL&FS will conduct a site visit on February 27, 1997 and a pre-submission conference on February 28, 1997. At that time, GoG and IL&FS will request any additional comments concerning the qualification process. The Expression of Interest must be received on or before 5 p.m. Indian Standard Time (IST), March 14, 1997.

The final Request for Qualifications ("RFQ") will be provided to those Applicants who have demonstrated a proper Expression of Interest in the Project. A proper EOI by any legal person or body corporate will require: (1) Attendance at the pre-submission conference and site visit by a sole applicant or a joint venture member; (2) Submission of a letter expressing interest from a sole applicant or a joint venture member; (3) Submission of evidence showing that it is duly authorised to submit a bid and to subsequently enter into an agreement or contract in the event of acceptance of such bid and to further initiate, conduct and conclude negotiations in relation thereto. The letters required in (2) and (3) must be signed by a person who is lawfully entitled to make the representations contained in each.

Applications to Qualify will only be considered by GoG/IL&FS from those Applicants that have obtained the RFQ directly from IL&FS as a result of the process outlined above. All pertinent details regarding qualification requirements will be contained in the Request for Qualification documents. Only those qualified by this procedure will eventually be invited to bid for the project.

Potential applicants may obtain the documents from: Ms. Sangeeta Anand, Manager (Infrastructure), Infrastructure Leasing and Financial Services, East Court, Zone VI, 4th Floor, India Habitat Centre, Lodhi Road, New Delhi 110 003. Tel: 463 6637/41/42. Fax 011-463 6651.

JPM 6/1/97

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873-3000 Telex: 922186 Fax: +44 171-407 5700
Friday January 31 1997

Korea's banks need reform

The collapse of Hanbo, the Korean steel company, with bank debts of \$5.8bn was a calamity waiting to happen. Though corruption may have played a particular role, Hanbo's problems are the natural outcome of a long Korean tradition of using banks to direct credit to selected enterprises.

By doing so, governments hoped to gain leverage over the mighty chaebol conglomerates. But Korean companies are left with dangerous gearing, while banks are saddled with mountains of bad debt. Hanbo is a signal that banking reform has become urgent.

Such reform is likely to prove difficult, because it requires a decision about who is to be responsible for the unrealistic losses lurking in the system.

With average bad and doubtful loans estimated at around 8 per cent of total lending, many banks face serious problems, made worse by sharp falls on the stock market which have eroded their reserves.

One solution might be to follow the pattern established elsewhere and spin off bad debts into a special vehicle for which the state takes ultimate responsibility. The banking sector could then be rationalised through mergers of basically sound institutions.

This approach would be unpopular because the taxpayer would ultimately have to bear

the cost. Also, it does not address the need to upgrade banking management. Since the chaebol themselves would be well placed to do this, an alternative would be to drop the rules preventing them owning banks. They could then take them over, absorb their losses and knock them into shape.

This might be politically attractive, but it would be a mistake. There is always a conflict of interest when an industrial company owns a bank. Such banks risk lending too much within their own group. The change would foster precisely the concentration of economic power which successive governments have sought to avoid. Besides, banks would have little incentive to provide much-needed credit to small businesses.

Two parallel measures would help make the bill more palatable for the taxpayer. First supervision must be improved - it beggars belief that supervisors apparently failed to notice the Hanbo crisis looming.

Second, the involvement of foreign banks would introduce new skills and enhance competition. The admission of foreign banks - either on their own, or as shareholders in local banks - should be integral to reform. Korea should not hide behind the excuse that the domestic banks need to be strengthened before the market opens.

Quiet warning

Mr Hiroshi Okuda, the president of Toyota Motor, has delivered an oblique, but unmistakable, warning of the dangers inherent in the UK's ambivalence on European monetary union. Despite the qualifications to his comments, his message was clear: he would prefer Britain to be inside ERM rather than outside it. His remarks are a timely reminder of how closely the UK's interests are linked to those of the international business located within it.

Mr Okuda's views must be seen in perspective. No international company will revise its strategy towards investment in Britain overnight. Whether or not the UK joins the monetary union in 1999, it will retain many of the advantages that have drawn so much foreign investment in the last 15 years, including low-cost and flexible labour markets, high-quality business services, and the English language. It will also remain within the EU's single market.

Toyota last year pledged to add a further £200m (£320m) to the £1bn already invested in the UK. This long-term plan was made, it should be remembered, when the government's lack of enthusiasm towards ERM was already clear.

Moreover, the impact of currency union *per se* could be exaggerated. Exporters would save money on foreign exchange transactions with EU customers. They could also benefit

from the stability created by the permanent fixing of exchange rates. Yet such gains are not necessarily decisive.

The flood of foreign investment into the UK coincided with a period of considerable instability in the pound's value against other European currencies. Sterling's exit from the European exchange rate mechanism did not seem to put off foreign investors. The currency is merely one factor in determining whether the UK is a profitable base for production.

Yet Mr Okuda is right to express concern. What worries him - and many other businessmen - is not necessarily the exchange rate but what hostility to the single currency implies. If the UK is neither in the first wave of ERM nor shows any willingness to join later, it would become increasingly isolated within the EU. Ultimately, its position in the EU could become untenable.

This does not mean the UK must join ERM as soon as possible - though in the right context, that would be beneficial. It does mean that UK politicians must cease their abuse of the project. The UK must at least remain a sympathetic observer and keep entry as a serious option. To turn its back on ERM altogether could undermine the UK's capacity for harmonious membership of the EU itself. Mr Okuda was right to warn the country of how much is at stake.

Off-Food

The government's announcement yesterday that it is to appoint an independent food safety adviser is a welcome recognition of a problem hitherto an inadequate solution.

The adviser is to head an expert Food Safety Council whose remit will include food safety, quality and labelling. It will, to some degree at least, co-ordinate the work of the existing, and sometimes confusing, network of half-a-dozen standing advisory committees to the health and agriculture departments. These tackle chemical, medical and biological aspects of food safety, novel foods and processes, and BSE.

As far as it goes, this is fine. But it does not go far enough. In recent years, and most notably over the handling of BSE, the problem has been less one of advice than of action. Furthermore, there are grounds for suspicion that ministers plan to select the independent adviser as much for media skills as for scientific expertise, in order to help reassure a public which no longer believes its politicians. The issue here is not public relations, but public safety.

And the reason public safety is in doubt lies in a basic tension yesterday's move does not address: that the Ministry of Agriculture (MAFF) is both champion of the producer and protector of the consumer.

These two functions require

separating. A body more akin to the US Food and Drug Administration needs to be created with statutory functions, as well as advisory functions. It would need to take prime responsibility for regulation, inspection and enforcement, and be able to propose legislation in areas of food standards and quality, consumer information and public health.

Such an agency will need to know the industry as well as be independent of it; this may imply some inevitable duplication of activities with MAFF. It will also, in itself, be no panacea. Awkward boundaries would remain with health. And the balance to be struck between producer and consumer interests will never be an easy one.

Mr Stephen Bollenbach, chief executive of Hilton Hotels, has a similar mission. Since taking up his post last February he has launched a strategy aimed at giving the Beverly Hills-based company greater global reach.

"This is an affirmation of our belief that the business is one that will consolidate," he said on Tuesday.

Hilton Hotels' bid, announced on Monday, comes almost a year after Granada Group, the UK TV and leisure company, took control of Forte, the UK's largest hotels company, after a £3.9bn hostile bid. These big deals reflect an upturn in the international hotel industry after the recession and the Gulf war in the early 1990s.

The economic recovery has stimulated an increase in travel and tourism which is lifting hotel revenues and profits in most parts of the world, according to Horwath International, the New York-based hotel consultancy group. The exception is some European countries, notably Germany and France.

"The lodging industry in the US is at its best shape in history," says Mr Ken Wilson of Horwath International. "The economy is good throughout the country. With businesses stronger, employment growing and consumer confidence at a high level, demand should continue to grow."

The hotel business is already a big industry, with annual turnover of \$50bn. That reflects the importance of travel and tourism which accounts for 10.7 per cent of the world's gross domestic product.

"Tourism is also one of the world's fastest-growing industries. The World Tourism Organisation, the UN's Madrid-based agency, expects international tourist arrivals to rise from 456m in 1990 to 660m in 2000 and to 937m in 2010 -

double the present level. But, possibly more important in the global expansion of the hotel chains is the growth in business travel.

American Express, the charge card company, estimates that US companies spent \$150bn on business travel last year - a 4 per cent increase on 1995. The rate of growth was similar for European companies which spent an estimated \$148bn last year.

Corporate customers increasingly want a global service which offers them discounts for using a single hotel chain worldwide. Yet there is no truly global hotel company, according to Mr Andries de Vaal, partner at Deloitte & Touche Consulting,

part of the accountancy firm. The chains with the widest networks have hotels in less than a third of countries and only a handful operate in more than 60 countries.

"Hotels need to go global because their clients are global," says Mr de Vaal. "Hilton is primarily US-oriented and Sheraton has a very strong representation around the world so if Hilton succeeds, it will get a terrific international network of broadly compatible hotels."

Large international chains such as Holiday Inn, Hilton, Sheraton, Marriott and Inter-Continental have increased their share of the stock of hotel rooms from 26 per cent in 1989 to 31 per

Two halves of a hospitality giant with global reach

Hilton's history

- 1928 Conrad Hilton opens his first hotel, the Mobley in Cisco, Texas
- 1946 Hilton is the first hotel company to list on the New York Stock Exchange
- 1954 Hilton International is formed when Hilton expands outside the US to open the Caribe Hilton in San Juan, Puerto Rico
- 1959 Hilton acquires the Hotel de Ville in Paris and the Hotel de Ville in San Juan
- 1963 Hilton moves into Europe, opening the Castellan Hilton in Madrid
- 1964 Hilton International is formed in the UK as an independent publicly owned company
- 1967 Trans World Airlines buys Hilton International. In April 1967 TWA sells Hilton International to Allegra Corporation. In September 1967 Ladbroke buys Hilton International
- 1986 Hilton Hotels Corporation and Ladbroke agree to form a new brand and to allow each company to own a minority 20 per cent stake in the other

Sheraton's history

- 1937 First hotel acquired in Springfield, Massachusetts
- 1939 Three more hotels added, including Sheraton hotel in Boston from which the Sheraton name developed
- 1947 Sheraton Corporation of America lists on the New York Stock Exchange
- 1949 Sheraton moves outside the US with acquisition of two Canadian hotel chains
- 1959 Sheraton expands to the Pacific with purchases of four hotels on Waikiki Beach, Hawaii
- 1961 Sheraton opens in the Middle East with Tel Aviv Sheraton
- 1962 The company forms a franchise division, Sheraton Inns
- 1968 ITT Corporation acquires Sheraton
- 1995 ITT Corporation is demerged into three companies, the hotels and gaming company is known as ITT Sheraton with ITT Sheraton as its wholly owned subsidiary

Wedding alarm bells

Anyone wondering about the outlook for US monetary policy and the stock market could do worse than consider the thinking of David Hale, irrepressible chief economist at Zurich Kemper.

Hale reckons that the wedding of Alan Greenspan, chairman of the Federal Reserve, on April 6, could hold some important pointers. For example - who will be best man? If Bob Rubin of the Treasury gets the job, Hale reckons this will testify to an era of continued monetary and fiscal co-operation. But if Senate majority leader Trent Lott is picked, this could show Greenspan intends co-operating closely with Congress.

There again, the nature of the jewellery worn by the bride will also be important. Will it be gold, platinum or silver?

Also of significance will be the composition of the Japanese delegation; will Eisuke Sakakibara - "Mr Yen" - be of the finance ministry to there to signal continued currency co-operation?

Hale offers a final sobering thought. We should not forget that Greenspan's bride is 30 years his junior. This just has to indicate a certain pessimism about the outlook for the future

of social security systems. Or maybe - to quote the bridegroom - from another context - it's simply a case of "irrational exuberance".

Taking flight

A case of history repeating itself, though this time we hope without quite the same ending. The struggling French carmaker Renault has teamed up with Aerospaciale, the state-owned aerospace group, to develop and market a new generation of light aircraft engines.

It's certainly one of the more arresting diversification moves of recent months, but a slight delve into the record books shows that the sector is by no means virgin territory for the 99-year-old company. In fact, it was an established aero engine manufacturer for 30 years, between 1910 and 1940, when the second world war rather seriously dented production.

Of course there's little prospect of the revived activity accounting for more than a tiny proportion of the group's overall business, at least for the foreseeable future. But who knows - it might fly.

Online off colour

MCI Internet is the latest of a string of Internet service

providers bent on sticking it to America Online while it's down. On Wednesday AOL agreed to offer refunds to any of its 8m subscribers, who have faced tremendous difficulty signing onto the overloaded network in the past two months.

Although MCI doesn't mention AOL - the largest US online service - by name, there's little question of the target of its latest publicity gimmick, a list of "the top 10 things to do while waiting in line to get online."

Some of the more imaginative options include: learn vector calculus; match up all your socks; hum the Star Spangled Banner to busy signal tone; find a word that rhymes with orange; and figure out what http:// really means. Least creative - though most predictable - is the suggestion from the AOL competitor to sign up for MCI Internet.

Glaxo's spearhead

Will done Sean Lance, 49-year-old chief executive designate of the world's biggest drug company Glaxo Wellcome. But Lance won't get his hands on the levers of power for a few years yet. Sir Richard Sykes, his predecessor, becomes executive chairman and plans to keep a firm grip on global strategy, research and development and external relations. At the tender

International hotels

Source of business	%
Domestic	51.4
Foreign	48.8
Percentage of repeat business	39.0

Composition of market	%
Government officials	3.1
Business travellers	38.9
Tourists (individual)	22.7
Tour groups	18.4
Conference participants	10.9
Other	8.0

Composition of advance reservations	%
Percentage of advance reservations	62.7
Direct	38.3
Own reservation system	18.9
Independent reservation system	6.0
Travel agents	15.7
Tour operators	12.7
Undertaken	8.4

Method of payment for hotel services	%
Cash sales	25.2
Credit card sales	38.2
All other credit sales	36.8

Topics most often addressed in companies' travel policies, %	%
Travel arrangements	80
Hotel reservations	70
Travel agents	60
Travel insurance	50
Travel expenses	40
Travel safety	30
Travel health	20
Travel security	10
Travel environment	0

Source: Horwath International and Smith Travel Research; American Express; Hotels Magazine; a Carfax publication, a division of Reed USA

international Meridien chain and concentrate on UK hotels, plans to hold on to the chain and double the number of its rooms to 50,000 by 2000.

If Hilton succeeds in its bid for ITT, it will put further pressure on other companies to follow suit.

"If this deal succeeds, it puts further pressure on Marriott to acquire outside North America and also on Bass to accelerate the expansion of its Crowne Plaza [upmarket] brand," says Mr Greg Feebely, leisure analyst at Dresdner Kleinwort Benson, the investment bank.

The large hotel chains - which do not, in the main, own their properties - have sought to expand by winning management contracts to operate hotels on behalf of owners, or through franchising.

Strategic alliances, such as the recent partnership between Four Seasons, the Toronto-based company and Carlson Hospitality Worldwide, the privately-owned US travel group, to expand the Four Seasons-owned Regent International chain have also been on the increase.

Securing these deals reflects the increased importance of having a strong brand which hotel owners will want to hang over their door. Much of the world outside the US is still virgin territory where only 30 per cent of the hotel stock is part of a branded chain, compared to 70 per cent in the US.

"There is a move towards chains and branding," says Holiday Inn.

Until recently, however, Hilton Hotels was unable to grow outside the US because it had sold its non-US chain in 1964 and could not use the name in other countries. But last summer Mr Bollenbach took the first step towards recreating a unified brand with a strategic alliance with Ladbroke, the UK-based company, which now owns the rights outside the US. The agreement covers joint marketing, with Hilton Hotels taking a 5 per cent stake in Ladbroke.

That alliance appears to have made the current bid for ITT possible, since it will allow Hilton Hotels to rebrand Sheraton hotels outside the US as Hiltons. Both Ladbroke and Hilton Hotels said this week that a decision has not yet been made regarding which of the two companies would operate the hotels.

ITT has yet to respond to Hilton Hotels' offer. But Mr Bollenbach is likely to have the next deal on his mind.

"The hotel business is booming," says Mr Bollenbach. "It is a wonderful time to own big full-service hotels."

Financial Times

50 years ago

The Rand Labour Strike. The present internal dispute of Rand mine workers resulting in a strike is another battle in a ten-year struggle to gain control of the 13,000-strong Mine Workers' Union by the opposition as a powerful political weapon and to obtain Parliamentary seats on the Rand. It is highly unlikely that it will succeed this time, and the fight will be continued at a later date. In 1927 the Africaner Union of Mineworkers was formed. It was financed entirely by "National Council Trustees" which were administered by a fund left by a rich widow. The following year the name was changed to reform the organisation still financed by the same source. The constitution laid down was that the mineworkers should be lined up with the existing "Christian National Union". The Mine Workers' Union was to be cleansed of all foreign and wrong influences and freed from the "international and communistic Trades and Labour Council".

The French Steel Industry. Paris, 30th Jan. The Industrial Production Commission of the French National Assembly has voted 12-9 in favour of nationalising the French iron and steel industry.

Getting the AXA

Bad news for employees in French insurer UAP, who were still desperately looking for residual signs that they are part of a "merger" with AXA, the rival that has gobbled them up to create, officially, AXA-UAP. The Paris bourse yesterday unveiled the name - chosen by the company - by which it will be known on the stock market. No prizes for guessing which three letters have been selected.

Global investment banking

SERIALS DIVISION

Financial deregulation has given investment banks the chance to regain their 19th century role as leaders of global development, writes John Gapper

A concentration of firepower

A decade ago, a global investment banking industry was no more than a distant vision: the business of advising companies and raising capital was dominated by big investment banks in each country. So, 1986 has been a more than simply a hugely rewarding year. It has been a coming of age for an industry.

Even two years ago, that would have been a surprise. Banks started 1994 in headlong retreat from a glorious year in 1993. As interest rates ticked up in the US, the long bond market rally that had created record trading profits ended with a number of institutions thrown into disarray.

Yet the losses of 1994 were quickly regained during 1995, while 1996 proved the industry's best ever year. Even if the big US investment banks did not uniformly beat 1993 results, their profits were not only at near-record levels, but came from a broader spread of financial activities.

Not only were bond markets active, and equity mar-

kets at a record level, but mergers and acquisitions, one of the weaker areas in the industry during 1993, struck a wave of activity. The strength of corporate restructuring in both Europe and the US was greater than even banks had predicted.

This has vindicated the decision of the largest US banks - notably the so-called "mini bulge bracket" of Goldman Sachs, Morgan Stanley and Merrill Lynch - to expand in Europe and Asia in the 1990s. The surprise has been that Europe has proved an easier hunting ground for revenues.

"If 1994 was a disaster, 1995 was a recovery year, and 1996 was better still," says Michael Dobson, chief executive of Deutsche Bank's investment bank, Deutsche Morgan Grenfell. He rates 1996 as "an upper quartile year" despite growing competition, and a sharp rise in staff costs.

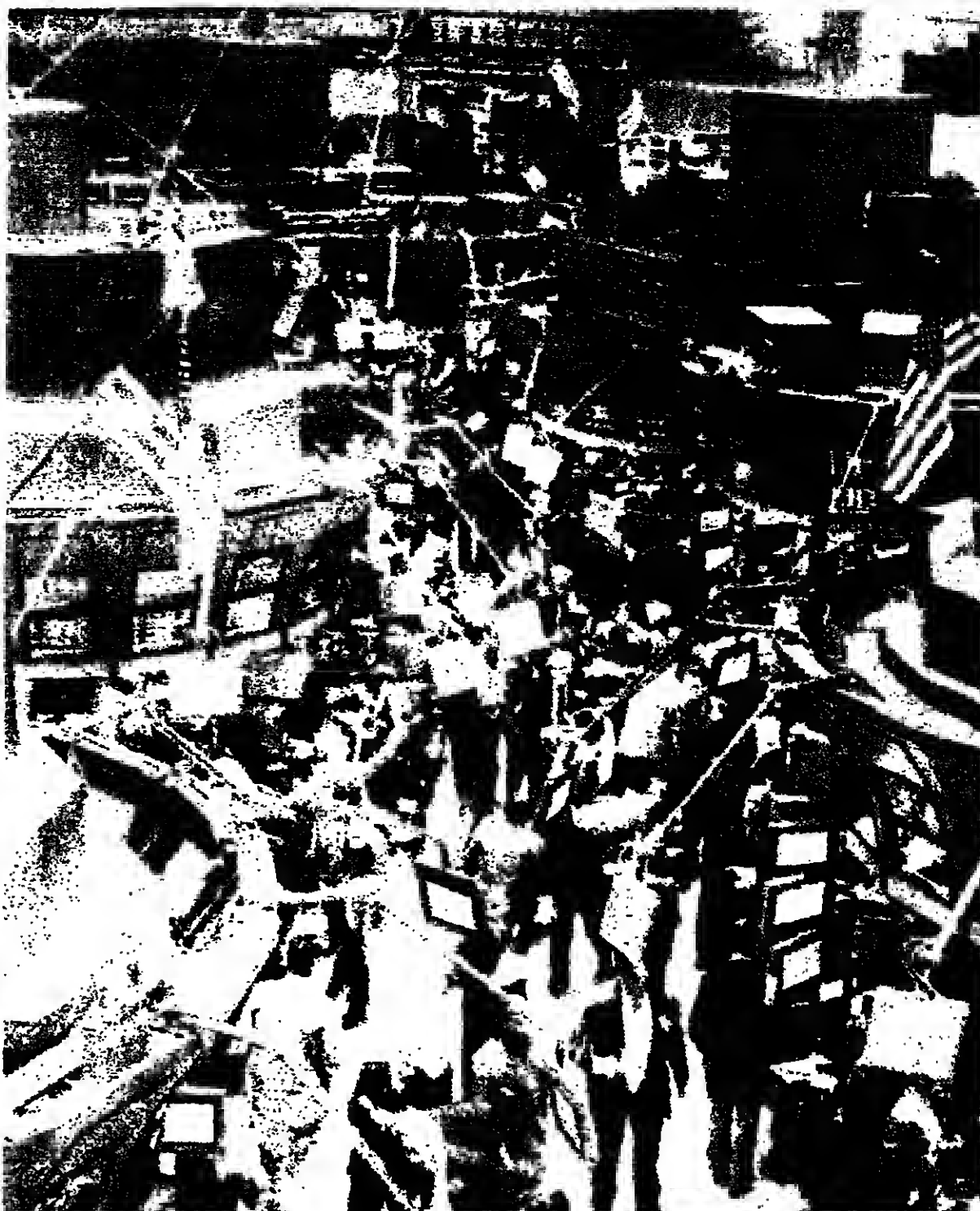
The large US investment banks have managed to persuade many issuers and investors around the world

that they alone have the expertise and financial strength to carry off the biggest and most complex deals. They have won leading roles as advisers on the biggest privatisations and cross-border deals.

"We see a lot of restructuring in domestic and cross-border markets, which allows us to bring our strengths to bear," says Walter Gubert, head of Europe for J.P. Morgan, the US bank. Even competitors who say the US firms are not truly global admit they have marketed themselves well.

Jon Corzine, chairman of Goldman Sachs, says that financial deregulation around the world has given investment banks the chance to regain their 19th century role as leaders of global development. "It is awe-inspiring, but it does not take a leap of imagination to see it happening."

Yet 1996 was also a year in which the big US firms started feeling a blast of direct competition from European houses in their backyard. Union Bank of



The good times are still rolling in New York - and in London - but what happens if the markets turn? (See page 2)

Switzerland and Deutsche Morgan Grenfell both attracted attention by hiring teams of valued staff from Wall Street to build up in the US.

This build-up on Wall Street is part of a broader effort by several European banks to break into the elite group of global investment banks. Each of the big three Swiss banks, as well as Deut-

sche Bank and Dresdner Bank in Germany, and National Westminster and Barclays in the UK are trying.

"The biggest change in the last year has been the emergence of universal banks as competitors," says David Robins, head of Europe for UBS. "There is more firepower out there in fewer hands, and the stakes for

becoming part of the global bulge bracket are getting higher all the time."

The biggest strategic challenge for European banks has been to compete in the US, the world's biggest capital market, and leading source of financial innovation. As the divide between banking and securities activities weakens, banks have

expanded by acquisition or by hiring staff.

Yet US firms also have their own expensive strategic moves to ponder. Mr Corzine admits that Goldman pushed too heavily into China in 1995 and has since been redistributing staff around Asia. Other investment banks are trying to bol-

Continued on page 2

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Production editor: Roy Terry

<p>Hong Kong</p> <p>Sino Land Company Limited</p> <p>US\$200,000,000</p> <p>5 per cent. Convertible Bonds due 2001</p> <p>Jardine Fleming</p>	<p>Hong Kong</p> <p>Paliburg International Finance Limited</p> <p>US\$140,000,000</p> <p>3 1/4 per cent. Exchangeable Guaranteed Bonds due 2001</p> <p>Exchangeable for ordinary shares of Regal Hotels International Holdings Limited</p> <p>Jardine Fleming</p>	<p>United Kingdom</p> <p>Sun Life and Provincial Holdings plc</p> <p>£526,400,000</p> <p>Offer of 224,000,000 Ordinary Shares and admission to listing on the London Stock Exchange</p> <p>Robert Fleming & Co. Limited</p>	<p>United Kingdom</p> <p>The Korea-Europe Fund Limited</p> <p>US\$73,200,000</p> <p>1 for 3 Rights Issue of 11,715,496 New Shares</p> <p>Robert Fleming & Co. Limited</p>
<p>Hong Kong</p> <p>Nam Fong International Holdings Limited</p> <p>HK\$979,200,000</p> <p>Offering of 340,000,000 Shares</p> <p>Jardine Fleming</p>	<p>Singapore</p> <p>Far East Servington Shipbuilding Limited</p> <p>US\$120,000,000</p> <p>1 1/4 per cent. Convertible Bonds due 2001</p> <p>Jardine Fleming</p>	<p>Philippines</p> <p>SOLID GROUP INC.</p> <p>US\$148,426,000</p> <p>International Offer of 665,000,000 Shares of Common Stock</p> <p>Jardine Fleming</p>	<p>Philippines</p> <p>MBI Finance Limited</p> <p>US\$219,000,000</p> <p>Zero Coupon Exchangeable Notes due 2001</p> <p>Exchangeable for shares of</p> <p>METHOBANK</p> <p>Robert Fleming & Co. Limited</p>
<p>Taiwan</p> <p>YAGEO Corporation</p> <p>US\$100,000,000</p> <p>1 1/4 per cent. Convertible Bonds due 2003</p> <p>Jardine Fleming</p>	<p>Taiwan</p> <p>ADI Corporation</p> <p>US\$70,000,000</p> <p>1 1/4 per cent. Convertible Bonds due 2003</p> <p>Jardine Fleming</p>	<p>Korea</p> <p>ANAM Industrial Co., Ltd.</p> <p>US\$40,000,000</p> <p>1/4 per cent. Convertible Bonds due 2010</p> <p>Jardine Fleming</p>	<p>Malaysia</p> <p>Sungei Way Holdings Berhad</p> <p>US\$110,000,000</p> <p>1 1/4 per cent. Convertible Bonds due 2001</p> <p>Jardine Fleming</p>
<p>Taiwan</p> <p>Union Petrochemical Corporation</p> <p>US\$85,000,000</p> <p>1 1/4 per cent. Convertible Bonds due 2003</p> <p>Jardine Fleming</p>	<p>Taiwan</p> <p>Compal Electronics, Inc.</p> <p>US\$95,000,000</p> <p>1.00 per cent. Convertible Bonds due 2003</p> <p>Jardine Fleming</p>	<p>South Africa</p> <p>The South African Breweries Limited</p> <p>US\$413,237,500</p> <p>Offering of 16,250,000 Ordinary Shares and American Depositary Shares</p> <p>Fleming Martin</p>	<p>Papua New Guinea</p> <p>Orogen Minerals Limited</p> <p>US\$243,408,355</p> <p>Offering of 2,821,300 Global Depositary Receipts and of 127,463,000 Ordinary Shares</p> <p>Jardine Fleming</p>
<p>India</p> <p>The Industrial Credit And Investment Corporation of India Limited</p> <p>US\$220,110,000</p> <p>Offering of 19,140,000 Global Depositary Receipts</p> <p>J.P. Morgan Securities Ltd.</p>	<p>India</p> <p>Crompton Greaves Limited</p> <p>US\$47,023,200</p> <p>Offering of 6,220,000 Global Depositary Receipts</p> <p>Jardine Fleming</p>	<p>1996</p> <p>Team Leader</p> <p>Bookrunner: 29 issues</p> <p>Team Player</p> <p>Joint or Co-Lead Manager: 42 issues</p> <p>Co Manager: 73 issues</p> <p>Raising over US\$42 billion from 33 countries</p> <p>Local Strength with Global Reach</p>	
<p>India</p> <p>USPS</p> <p>US\$125,000,000</p> <p>Offering of 8,680,550 Global Depositary Receipts</p> <p>Jardine Fleming</p>	<p>Thailand</p> <p>Loxley Public Company Limited</p> <p>US\$110,000,000</p> <p>2 1/4 per cent. Convertible Bonds due 2001</p> <p>Jardine Fleming</p>	<p>FLEMINGS</p> <p>Robert Fleming & Co. Limited</p>	<p>Jardine Fleming</p> <p>The Leading Edge in Asia-Pacific</p>
<p>Thailand</p> <p>Central Pattana Public Company Limited</p> <p>US\$50,000,000</p> <p>2 1/4 per cent. Convertible Bonds due 2001</p> <p>Jardine Fleming</p>	<p>Thailand</p> <p>Property Perfect Public Company Limited</p> <p>US\$35,000,000</p> <p>3 1/4 per cent. Convertible Bonds due 2001</p> <p>Jardine Fleming</p>	<p>FLEMING MARTIN</p>	<p>ORD MINNETT</p>

2 GLOBAL INVESTMENT BANKING

Concentration of firepower

Continued from page 1

ster their forces in Russia and eastern Europe.

Decisions of this nature are not the only difficulties that face the industry. Growing competition, leading to the poaching of staff in London and New York, has escalated pay rates.

Entire teams of brokers have moved from one institution to another, often securing guaranteed bonus levels over two years.

"Clearly many firms did well last year but how much of the profit ended up with shareholders is another matter," says Hans de Gier, chairman of SBC Warburg, the investment banking arm of Swiss Bank Corporation. "My hunch is that many people working in the industry took their fair cut."

In addition, the competition squeezed margins in many areas of investment banking.

Although mergers and acquisitions fees remained solid, margins in formerly profitable areas, such as equity bought deals, and standard derivatives transactions, came under further pressure during the year.

More broadly, investment banks faced growing challenges in managing operations in a stable manner.

Competition for staff has led to regular blow-ups, such as the minor revolt in the fixed income division of CS First Boston last year over its proposed bonuses for the 1995 financial year.

If anything, the newer institutions may prove even less stable when there is a downturn, since they have hired from a wide range of other firms. "It may take a long time to make some of the ventures work successfully, given how they are being built," says one investment banker.

Finally, many firms are wary of repeating the errors of the end of 1993, when investment banks suffered severe losses as bond markets reversed.

"It is rather like a game of musical chairs. The music is

still going, but everybody is walking very slowly," says another banker.

Most banks expect to suffer if there is any repetition of the sharp market break of 1993-94. "I suppose people try to learn from their mistakes, but having said that, banks have invested heavily in people and technology, so there is bound to be some pain," says Mr Dobson of DMG.

Nonetheless, many bankers are cautiously optimistic about the outlook for 1997, while not expecting it to match 1996. Although there is nervousness about the high levels of the equity market in the US, subdued inflation means interest rates are not expected to rise rapidly.

Furthermore, corporate finance advisers expect the flow of cross-border deals to continue as European industry faces up to de-regulation and greater emphasis on shareholder value.

Investment bankers also predict strong business flows in structured and project finance across Asia.

Mr de Gier of SBC Warburg says that one of the most profitable segments of the industry will be in structured and high yield finance, and areas of innovation such as credit derivatives.

European banks believe they can gain an advantage in these areas from having strong balance sheets, and technology.

Yet, the European competitors face a struggle to catch up both with the investments made by the US bulge bracket over the past few years and their long-established expertise in many markets.

To compete on sheer financial firepower alone will not be enough, as many of them acknowledge.

Some of those who had gruffed their teeth to make some of the investment necessary to become a global investment bank had an unexpectedly easy ride in 1996. The decision to keep investing will be all the more difficult when the industry enters bolder times.

■ US investment banks: by Tracy Corrigan

The good times are still rolling

The bull market in US equities has proved more durable than analysts expected

US investment banks and securities houses have never had it so good. Most achieved record profits last year. Indeed, it is easier to list those which did not have a record year - Goldman did not quite top a glorious 1993 - than to recite the litany of those which did.

"Record performances were posted in nearly every aspect of the markets and our industry," said Jerry Schaefer, chief economist of the Securities Industry Association, in a recent report.

Return on equity for the top US investment banks is running above 20 per cent, thanks to buoyant market conditions which have produced record underwriting volume and a booming market for mergers and acquisitions. As a consequence, many bankers received record bonuses last year.

But the bull market in US equities has already proved more durable than most analysts had expected. The good times are still rolling, but what happens if the markets turn?

Investment banking profits are notoriously volatile, and the main variable is the markets. A severe market downturn would not only hurt trading and underwriting revenues, but could dent the profitable mergers and acquisitions business, by reducing the ability of companies to finance takeovers with highly-valued stock (though the counter-argument is that lower stock prices would make some takeover targets more appealing).

Still, given the benign economic environment, there are reasonable grounds for hoping that such a scenario will be avoided. Although most analysts believe that the strong gains of stock prices of the past two years will not be replicated, many feel that a more gradual rally is sustainable.



Wall Street: US investment banks have never had it so good

"If the market falls out of bed, of course all of us will suffer, but we are among those who believe that inflation is under very good control," said John Chalsty, chairman and chief executive of Donaldson Lufkin & Jenrette.

Topping their 1996 performance is likely to be a problem for investment banks and securities houses. "How does it get better than that?" asked Sallie Krawcheck, securities industry analyst at Sanford C Bernstein. Her answer is that it does not. "We are looking for earnings

contractions in 1997."

Certainly, in terms of quarterly earnings comparisons, the US investment banks and securities houses have a tough ride ahead of them, since earnings in the first and second quarter of 1997 will be measured against an extremely strong first half in 1996.

"When you come off such a strong year, you have to say to yourself that it will be tough to improve on that," admits Mr Chalsty, "but we are not going in with apprehension. We have a big backlog of deals."

But there is another danger facing the investment banking industry: mounting competition could send profitability into decline, particularly if the volume of available business stops growing.

In the US market, US investment banks are being challenged by commercial banks such as Chase and Citibank and by European universal banks such as Deutsche Morgan Crenell and Union Bank of Switzerland. Investment banks,

under pressure from commercial banks trying to grab some of their business, are hitting back by setting up syndicated lending departments.

Furthermore, the emergence of Merrill Lynch, Goldman Sachs and Morgan Stanley as what has been termed the new bulge bracket - a sort of mini-monopoly carving up the lion's share of business between them - has intensified competition between those striving to catch up.

It is a complex picture, with many firms holding strong positions in one market but still struggling to establish themselves in another. That means that there are an alarming number of profitable businesses struggling to make a great leap forward.

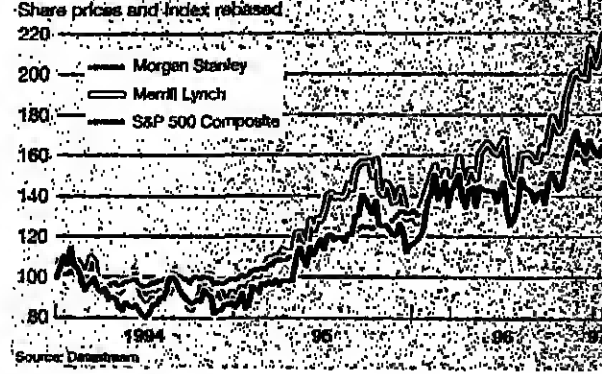
For example, Salomon Brothers and Lehman Brothers, which held extremely strong market positions in bonds globally, are still struggling to catch up in equities; meanwhile, the likes of Donaldson Luf-

kin & Jenrette and Smith Barney which are highly successful in certain domestic markets - DLJ dominates the high-yield market, for example - have little visibility internationally. J.P. Morgan, still building its US investment banking business, has a strong international brand and is making headway in the domestic market.

But all these institutions have gaps to fill to leapfrog to the dominant market position.

US investment banks

Share prices and index (1994=100)



■ Information technology: by Michael Prest

Exploring new frontiers

Huge amounts of computing power are now being used to develop new products

Investment bankers have always prided themselves on living by their wits but today they have also to live on their microchips. A big global house, such as Merrill Lynch, can spend \$1bn a year on information technology. And, as the competition intensifies and markets become more complex, the race for technological superiority shows no sign of slackening.

In no part of the business is this more true than risk management. Investment banks have two principal aims in mind: to monitor and understand better their own exposures; and to devise new instruments, such as derivatives or structured products, which both earn good margins from clients. Prudent as this may sound, firms have little choice. Competition and the European capital adequacy directive have forced banks, chastened by the fate of Barings, to account much more precisely for how they use their capital. The better the grasp a bank has on risk, the more leverage it can extract from its capital, and the more profitable it should be.

Simon Nelson, a risk management specialist with Cap Gemini, Europe's biggest system house, said: "The people who manage their risk best will be able to use their capital best, and will have an advantage. Everyone is nervous about being left behind in this race."

This race has indeed already taken investment banks to the frontiers of information technology.

"The quality of academic research going into this kind of thing is as high as anywhere else in the world - or even higher, because companies can make so much money," according to Mr Nelson.

One recently developed product is credit derivatives, a kind of insurance against changes to a company's credit rating. The industry and its regulators, however, cannot decide whether credit derivatives are banking or insurance products.

In devising these products, investment banks and their information technology consultants - who are often as much business analysts as boffins - are using such exotic ideas as neural networks, which learn and act on what they learn, and elaborate risk assessments based on the Monte Carlo simulation technique first used in the Manhattan Project.

Such simulations require huge amounts of computing power because they involve running thousands of possible scenarios. Not surprisingly, investment banks and their information technology consultants are hiring top flight mathematicians, physicists, and other graduates with similar training.

There is a problem, however. The greater the expertise employed in managing risk, the greater the danger that management will not understand what the experts are doing. The industry is full of stories about huge sums being lost because mathematically-based trading was flawed.

"Do managers really understand the risks when they're put together?", asks John Owen, head of worldwide capital markets consulting for IBM Consulting Group. He believes that the quality of data collection is

fundamental. Integrating as many as 30 systems in a company poses tremendous difficulties of comparing like with like and presenting the results in a comprehensible way. Investment banks are beginning to realise that they must improve data collection if risk management is to improve.

Another, less exotic, trend which has accelerated in the industry over the past year is outsourcing. Commercial banks and insurers have been placing routine, particularly back office, work with outside contractors for several years. As their business has grown and the pressures to cut costs have mounted, investment banks have increasingly followed suit - sometimes to places as far afield as India.

The advantage is not just cost-savings. Sloughing off mass clerical work often done on systems accumulated over many years - what the trade calls legacy systems - has allowed investment banks to look again at their information technology and to update quickly.

A particular information technology headache which has arisen recently is the single European currency. Investment banks are grappling with how to transact business in euro and their normal accounting currency during the single currency's phased introduction. They face an unenviable choice between running dual ledgers or trying to relate transactions to one base currency.

Unfortunately for investment banks, European Monetary Union is scheduled to coincide with another neuralgia-inducing point: overhauling systems to cope with 21st century dates. According to Mr Owen, as much as three-quarters of many organisations' computer

systems need changing. Companies may have to spend as much as \$500m on solving the 2000 problem.

Looking further ahead, enormous advances in communications such as the Financial Information Exchange (Fix) developed by many of the big American houses, are reinforcing two related trends: automated trading, and partly because of automation, a new breed of sales people/traders who can spend more time with customers. As trading costs fall and the chain between customer and provider is getting shorter, companies will survive by adding value to customer service.

Despite the brains and money going into investment banking information technology, the past still casts a long shadow. One company which has tried to escape from the shadow is London-based Caspian Securities, which specialises in emerging markets. Working with Andersen Consulting, Caspian started from scratch last year as the first virtual global securities group.

The firm does not have a normal headquarters office and conducts international meetings between analysts and managers in its developing country markets by electronic mail and conference calls. Andersen was asked to design a technology framework which would give participative staff equal access to information so that work could be passed seamlessly around the globe, according to Richard Greer, Caspian's managing director of global research.

So far, nobody seems to be emulating Caspian. But all investment banks face the cost, competition and technology problems which persuaded Caspian's founders to journey down the virtual route.

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January 1996

British Energy

BZW acted as sole financial adviser and global co-ordinator of the UK government's £1.4 billion sale of shares.

July 1996

Bank of Scotland

BZW acted as sole bookrunner and joint global co-ordinator of Standard Life's sale of 347.7 million shares in Bank of Scotland valued at £772 million.

July 1996

Premier Farnell plc

de Zoete & Bevan was sole broker and joint underwriter of the £349 million rights issue to part-fund the £1.65 billion of Premier Industrial Corporation.

March 1996

SAFeway

BZW co-ordinated the awarding of crisis shareholdings with Royal Ahold and Caring, with a total value of £340 million and bought back of holdings in Safeway for £29 million.

March 1996

COMKINS

BZW was joint financial adviser and sole broker to the acquisition of The Gates Corporation for \$1.169 million. Wholly financed by two Convertible Preference share issues.

February 1996

PAGE

BZW acted as sponsor, lead manager and bookrunner to Page in the £226 million placing.

June 1996

BURFORD HOLDINGS plc

2 for 5 rights issue to raise £442 million net. Demerger of Grantchester Holdings PLC for £84 million.

July 1996

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INVESTORS





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 Deutsche Telekom DM 20 billion November 1996	The largest international equity issue ever which generated demand of DM 122 billion.  Joint global coordinator
 orange £733 million July 1996	The largest IPO by a UK private sector issuer in 1996, generating demand of over £5.5 billion. Joint global coordinator, joint bookrunner and financial adviser
 SOL CARBON AG DM 1.6 billion June 1996	The largest increase in free float of a German company via a secondary offering. Joint global coordinator, joint bookrunner and financial adviser




Integrated Service

 GAZPROM US\$429 million October 1996	The capital markets debut of one of the world's largest companies and the first London listing for a Russian company. Dresdner Bank are currently arranging a US\$2.5 billion loan facility.  Joint global coordinator and financial adviser
 TATNEFT US\$120 million December 1996	The first Russian oil company to achieve a London listing for its ADSs. Dresdner Bank also arranged a US\$75 million loan facility. Global coordinator, bookrunner and financial adviser
 Fresenius Medical Care AG DM 675 million October 1996	Complex structure was completed in just three weeks. We also acted as financial adviser in the acquisition of National Medical Care, Inc.  Joint global coordinator, joint bookrunner and financial adviser

Innovation

 Celesc US\$130 million September 1996	The first Brazilian GDR to be listed in London. Joint global coordinator and joint bookrunner
 CLARINS PARIS FF 313 million June 1996	Using a novel accelerated bookbuilding system, demand of over FF 734 million was raised in just three hours. Joint lead manager and joint bookrunner
 UNITED news & media £180 million November 1996	The largest convertible bond for a UK media company. Bookrunner and financial adviser

IPO Expertise

 DHL SEK 1.3 billion May 1996	Dual listing in Stockholm and Copenhagen. Joint global coordinator, joint bookrunner and financial adviser
 SCANDIC HOTELS SEK 1.1 billion December 1996	The first hotel company to be listed in the Nordic Region. Joint global coordinator, joint bookrunner and financial adviser
 MOL HUNGARIAN OIL and GAS COMPANY LTD. HUF 22.4 billion November 1995	The largest Central European offering to date. Joint global coordinator, joint bookrunner and financial adviser

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Dresdner Bank AG

4 GLOBAL INVESTMENT BANKING

■ Pay and Remuneration: by Michael Prest

Winners take all

Surging markets and competition for skills have driven bonuses to new highs

This is the bonus season in the City of London, and few have been looking forward to it more than the Square Mile's investment bankers. Employees from the boardroom to the postroom are savouring earnings which in many cases equal or exceed the heady days of Big Bang. Headhunters report intense competition for the best performers and pay consultants are more in demand than ever as firms seek to attract and retain staff.

Much the same picture can be painted internationally, especially in New York and Asia.

The huge annual sums paid to top earners - £1m is no longer so exceptional in the City - and the rising expectations among more lowly employees are, however, a mixed blessing. Managements are struggling to contain costs and there is a mounting conviction that any subsequent shakeout will be all the harsher when it comes.

Mr Bob Fhoir managing partner at Korn/Ferry International, a leading recruitment firm, reports that earnings over the past couple of years sharply upwards, a trend confirmed by Mr Joe Clark of pay consultants, the Monks Partnership.

He estimates that a bright young graduate can expect a starting salary of as much as £25,000 a year with an investment bank. A Eurobond trader in his or her late twenties with about 2 years experience can earn more than £45,000. The somewhat older head of a function, such as fixed-interest trading, might command a salary of £150,000.

These salaries appear generous when compared with national average earnings, but, for senior employees at least, are well below those paid by industry.

Income Data Services, a City consultancy which tracks earnings, estimates

that the average basic salary for senior directors of companies in the FTSE 250 was more than £200,000 in 1996/97.

Significantly, however, one of the highest pay packets IDS analysed was the £1.23m earned by a director of Schroders, the City merchant bank. The difference in this case between a relatively small basic salary and being an annual millionaire was a bonus worth 773 per cent of salary.

While Mr Clark calculates that base salaries in investment banking drifted up by only about 5 per cent last year, bonuses can indeed be huge.

Other inducements such as the Porsche car or a generous pension scheme, pale in comparison. Bonuses for 1996 look to have been even bigger than those for 1995, itself a good year.

A handful of bonuses will be 100 per cent of salary or more. These are the payouts which hit the headlines and inspire stories in City watering holes about mortgages being eliminated overnight. But most bonuses will be around 40 per cent of basic pay, and for very junior employees they are probably a modest 15 per cent - still handsome, but not the stuff of legend.

There are three reasons why investment bankers have been earning so much over the past couple of years, and quite possibly will do equally well in 1997.

The first and most obvious reason is rapidly growing markets, which have fuelled demand for good people and for exotic higher-margin financial products such as derivatives.

A second factor has been the struggle among investment banks to join the group of institutions with the biggest market share. Continental European banks with big capital bases, for example Deutsche Bank or UBS, have flocked to London to join the likes of BZW and Nat West in challenging the previous hegemony of American investment banks such as Goldman Sachs or Salomon Brothers.

Star financial performers

are few so competition for top institutional ranking has inflated pay packages.

A third factor is the nature of the international financial markets, in which the City has a pivotal place. The potential rewards from huge global markets are generally bigger than from national markets.

The size of global rewards and the scarcity of first rate skills have made the City part of a winner-takes-all society. Top salaries are in a sense leveraged so that they can be orders of magnitude greater than those of employees who may not be much further down the corporate pecking order.

Some skills have been more eagerly sought after than others. Headhunters, for whom 1996 was the busiest year since Big Bang 10 years ago, say that experts in the legal and compliance, risk management, and derivatives and structured products areas, especially where fees can be earned, are particularly in demand.

But the overall tendency is towards higher remuneration, and this has led some investment banks to begin to put certain checks in place. Mr Fhoir said: "People act as though the guys who run these investment banks are idiots. That's a mistake. They're not just following the trend and throwing money around."

They know, he says, that it can be an expensive error to promise a full year's bonus to a new employee before he or she has proved their worth.

Over the recent years managements have tried to restrict the percentage of profits consumed by bonuses, typically to around 40 per cent, partly by limiting guaranteed bonuses. Investment banks are also deferring bonuses and paying more in shares and options in the hope that footloose employees will stay a little longer. Everybody is also acutely aware that bonuses can shrink rapidly in poor markets.

Nevertheless, at the moment most investment bankers are eagerly awaiting next year's bonus season.



Robert E. Diamond Jr: contract worth an estimated £2m a year



John Thornton: life is likely to be complex in the year ahead



Peter Hancock: career is an 'eclectic mix of experiences'



Joseph Perella: legendary veteran of 33 years on Wall St

■ Star managers: by William Lewis

Team leaders with attitude

Powerhouse firms have been setting managers tough new challenges

Over the past 12 months, as investment banks have sought to outbid each other to attract the services of specialists in areas such as mergers and acquisitions, new issues and derivatives, the term "star" has been used regularly to describe the industry's big earners.

But in a year when most investment banking departments have enjoyed excellent returns, it has required something extra to stand out from this crowd.

Below four individuals who displayed those additional qualities in 1996 are profiled. All insist that they are leaders of a team and downplay the extent of their direct contribution. Nevertheless, with each of them having recently been handed new management challenges, the way they perform in 1997 will be an important determinant of how their firms perform.

Joseph Perella, head of investment banking at Morgan Stanley: At an age when most invest-

ment bankers are thinking of retirement, Joseph Perella, 55, one of Wall Street's legendary merger and acquisition specialists shows no signs of slowing down.

Last month Mr Perella was named as the successor to Robert Scott as head of investment banking, and will report direct to Peter Karsh, head of Morgan Stanley's newly integrated securities business.

The promotion comes approximately three years after he joined Morgan Stanley from Wasserstein Perella, the Wall Street corporate finance firm he co-founded in February 1983. Before that Mr Perella had been co-head of investment banking at First Boston, where he had set up the M&A team in 1973.

Last month's promotion also followed a strong year for Mr Perella in 1996. Highlights included his leading of the Morgan Stanley team that advised Sandoz on its link up with Ciba-Geigy, the world's largest ever industrial merger.

A veteran of 33 years on Wall Street, Mr Perella has seen and done most things in investment banking. Mr Perella, along with Wasserstein, created the seminal 1980s deals, such as the creation of Time Warner and Philip Morris' takeover of Kraft.

Mr Perella's style and method have brought him great success and the surprise expressed by industry observers at his recent promotion was aimed at Mr Perella rather than Morgan Stanley. "I can see why Morgan Stanley wants him; he's a true star," one analyst says. "But what makes Joe continue to run?"

The answer appears to be the buzz he gets from the job. "I really love this business," Mr Perella says. "I am

excited every time I get up in the morning. It's not the money at all. I love the people here," he says.

Robert E. Diamond Jr, chief executive of the global markets division of BZW, the investment bank of the Barclays group, has been in the spotlight since July, when Bob Diamond was appointed chief executive of BZW's global markets division, the year was not looking too good. In March he had resigned as head of CS First Boston's global fixed income and foreign exchange business, following a staff battle over bonuses.

However, in August Mr Diamond popped up at BZW having signed up to the dream of Martin Taylor, chief executive of Barclays, to create an investment banking powerhouse at BZW.

Put in charge of all BZW's fixed income, derivatives, foreign exchange, treasury, futures and metals operations, Diamond also signed a contract worth an estimated £5m a year.

With Bill Harrison later appointed as chief executive of BZW, Mr Diamond embarked on an extraordinary three month period which saw around 140 departures and 140 arrivals at BZW's global markets division.

The departures included Klaus-Peter Moeritz, head of foreign exchange trading in UK and Europe, and Alex von Ungem-Stenberg, deputy chief executive of the markets division.

Arrivals include Neil Cummins, who has worked at Morgan Stanley for the last 12 years but moved last month to become the division's managing director and global head of sales and research.

"It has been a chaotic

period. Whenever you start in the middle of the year it is going to be very difficult," Mr Diamond says. "But the quality of the people that have been attracted here is very exciting for the organisation."

Mr Diamond says that the period of frenetic departures and arrivals has ended and the division has moved into a "bedding down" phase, albeit with annual staff turnover at approximately 15 per cent. "We are going to pursue being a first class institution, nothing less," Mr Diamond says.

It will take, says Mr Diamond, "a two to three year period before we can see the effect. After that period we will be able to say whether we are first tier or on the threshold of it."

John Thornton, head of Goldman Sachs' Asian operations, has been in the spotlight since July, when he moved from his job as co-head of Goldman Sachs' investment banking in Europe to take responsibility for its Asian operations, likely to prove complex in the year ahead.

Charged by Jon Corzine, Goldman's chairman, with leading the investment bank's efforts in the developing Asian markets, Mr Thornton insists he will also continue a "handful of key client relationships" which he built up over several years in Europe. This means that companies such as ICI, BP and Unilever will continue to be advised by him.

Described by Mr Corzine as "one of the most talented people at the firm," Mr Thornton will also have to juggle the responsibilities of being a member of Goldman's six-man executive committee. Add to this a number of company directorships and it appears that

something is going to have to give.

However, London-based colleagues, who have watched him develop into one of the City's leading M&A advisers, have few doubts that he will succeed. After 14 years in Europe Mr Thornton is credited with making Goldman Sachs one of the leading people in European M&A work. "Our success is to do with the fruits of our labour, [the seeds of] which have been sown for some time."

Goldman hopes to produce the same performance in Asia. "Over time we want to be the pre-eminent firm in the significant Asian markets," Mr Thornton says.

Peter Hancock, managing director and head of global fixed income, J.P. Morgan: Douglas "Sandy" Warner's shake up of the senior management team at J.P. Morgan has given a new group of younger bankers greater leeway and led to speculation that one of the younger bloods will eventually succeed Mr Warner as chairman of the bank.

One of those is Peter Hancock, a 38-year-old Briton, who in 1995 added fixed income and capital markets to his control of derivatives. At J.P. Morgan, Mr Hancock runs the bank's global fixed income division but also has direct responsibility for North American fixed income. He also sits on J.P. Morgan's "house", or management, committee.

He describes his career thus far as an "eclectic mix of experiences". He joined J.P. Morgan in London in 1980, and initially worked in the corporate finance team. Five years later he moved to the Eurobond syndicate desk, and in 1988 became manager of the multi-currency asset and liability desk. After two years, Mr Hancock joined Swisscom as manager of swap and interest rate derivative trading, and in 1990 became head of global swaps in New York. In 1991 he became co-head of foreign exchange, equity and commodity derivatives and was given his current responsibilities in March 1995.

Mr Hancock says that his "background is in derivatives" and 1996 saw J.P. Morgan's notional swap and interest rate derivatives book move to \$1.5 trillion, up 55 per cent on 1994, and it also carried out 32,400 trades for 2,000 clients.

Mr Hancock says that he has spent a lot of the past 18 months integrating three teams: Swaps, capital markets and the traditional cash fixed income business. And he has also worked on the integration of the fixed income division with the rest of J.P. Morgan. "The most exciting deals are the ones which involve a dozen different departments solving a client's problems," he says.

■ Risk management: by Katy Massey

'Rocket scientists' fly high

Many institutions have developed marketable risk management products

Risk management is a big issue and a big business. In the 1990s, regulators in the leading economic nations have been preoccupied with forcing banks to monitor their exposure to market movements. A useful by-product has been the number of institutions which have found that, in the process of solving their own problems, they have developed marketable risk management products.

Leader of the pack is J.P. Morgan. This month, the bank launched a more advanced version of its RiskMetrics software in collaboration with engineering technologist The Mathworks. It is a clear signal that those institutions which are not leading the search to find solutions to risk management problems, are merely following.

This is because regulators have developed bank operating rules based on the available technology. Despite the fuss made by industry participants when new regulatory initiatives are announced, the banks and the technology suppliers have developed effective analytical frameworks and software applications to satisfy the regulators.

One of these frameworks - value at risk - has become the industry standard. A number of banks - J.P. Morgan, but also Bankers Trust, Deutsche Bank, Chase Manhattan and Credit Suisse First Boston - have produced commercially avail-

able information technology packages based on the VAR principle. In this way the investment banks actively involved in the field have become the prisoners who cut their jailers' keys.

VAR, was developed by J.P. Morgan in response to its former chairman Dennis Weatherstone's request that he receive a daily summary of the bank's potential losses over the following 24 hours across its entire portfolio. The job laid at the feet of J.P. Morgan's nascent financial engineers was to spawn a whole new industry - and career. The so-called "rocket scientists" within banking institutions are as likely to be devising new and more accurate risk measurement tools as to be creating ever-more complex derivative instruments.

VAR was revolutionary because it allowed the risk across an entire portfolio to be expressed in terms of a single figure. The idea is that non-specialist senior staff can be aware of, and understand, the banks' net trading position. This elegant solution is, as technophobes may suspect, the result of a complicated set of methodologies and software applications which vary from IT package to IT package. This expertise doesn't come cheap - Bankers Trust charges \$1m for its Baroc (risk adjusted return on capital) 2020 system.

Crucially, the Bank for International Settlements, the US Securities and Exchange Commission and, to a more limited extent, the European Commission have used VAR principles in formulating reporting and capital adequacy standards. "We have a constant dialogue with regulators and some of

the biggest regulators worldwide are using FourFifteen, the company's RiskMetrics software tool," comments Guy Coughlan, the J.P. Morgan vice-president charged with launching the bank's newest version of the software.

However, the rocket scientists do not have it all their own way. The conclusions of the Baile-based Bank for International Settlements in January last year demonstrated that its concerns were largely with the limitations of the technology. The

The nettle has recently been grasped by the Securities and Investments Board

issues still to be addressed include the effects of dramatic occurrences, so-called "event risk" and the assumption that returns are normally distributed, rather than the probability of large gains and losses occurring as often as they actually do. Add to this the fact that predictions of market behaviour are based on historical data and, unsurprisingly, the BIS found that investments banks' internal systems had not performed as well as it was hoped in predicting market risk. Market participants have been made aware that the concentration of investment banks' efforts on the highly profitable - and technically complex - technological approaches to measure risk does beg a fundamental question. The Barings debacle and the

losses at Sumitomo could not have been prevented by any amount of software. "Operational risk", or the risk that a business will not be run correctly, or suffer the affect of the fraudulent activities of its staff, is not reduced by advanced systems, which are only as good as the data fed into them.

Whereas it is in the interest of the investment banks to deal with the risks posed by market exposure, the responsibility to get to grips with operational risk has been left entirely to the regulators. The nettle has recently been grasped by the UK's Securities and Investments Board which has published draft proposals that attempt to hold senior management more accountable for the results of negligence or ignorance. Industry participants have responded by arguing that the increasing complexity of modern financial institutions makes it impossible for senior management to know what their staff are doing at all times.

This response illustrates an interesting dichotomy. The financial markets are now faster, enjoy higher capitalisation, a greater range of instruments and a broader geographical spread than ever before. The investment banks have largely succeeded in controlling the risk posed by the financial markets, by using up-to-date technology and by investing millions of dollars. It is difficult to believe that controlling the risk posed by a bank's internal operations is a more difficult challenge, though this seems to be what is emerging.

Katy Massey is editor of *Clearing & Settlement Magazine*.

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Loans markets: by Conner Middelmann

Banks have an appetite for risk

In spite of shrinking returns, the syndicated loans market has had a strong year

This year is set to become another of declining interest margins and softening loan covenants as cash-rich banks take on higher risks to win business in the syndicated loans market.

That trend, which has gathered momentum in the past two years, is likely to continue as long as economic growth in the western world is maintained and no major credit events occur.

"As we get deeper into the global economic recovery and country risks appear to be subsiding, banks are chasing more aggressively around the globe looking to capture a limited number of business opportunities," says Stephen Fleming, head of structured finance at Bank of America in London.

"Banks have strong balance sheets and relatively high-quality loan portfolios, so their appetite for risk is higher than in 1991 and 1992."

In spite of shrinking returns, the syndicated loans

market has had another strong year. The volume of euro-market loans totalled \$360bn last year, down markedly from 1995's record \$396bn but significantly above the \$220bn arranged in 1994, numbers from Capital Data Loanware show.

Borrowers in central and eastern Europe accounted for \$11.8bn of loans, after \$3.7bn in 1995, while Latin American borrowers raised \$19.7bn, down from \$22.2bn last year.

Among western European borrowers there was a slight decline in activity, with facilities totalling \$260bn, down from \$274bn last year. The drop in volume was partly because of lower sovereign borrowing as European governments scrambled to reduce their budget deficits to help them meet the Maastricht criteria for European monetary union.

Also, many sovereigns established finely-priced facilities during the last two years and had no need for new money. Sovereign activity totalled a mere \$4.5bn, down from \$36bn in 1995 and \$16bn in 1994, according to Capital Data.

In the corporate sector, loan refinancings, which boosted lending in 1995 and

1994, also slowed since most borrowers now have finely priced facilities in place for several years.

Nevertheless, the UK market was very active, buoyed by large mergers and acquisitions - such as Granada's hostile takeover of the Forté hotel group - a round of acquisitions in the UK energy sector privatisations - including Railtrack and British Energy - and corporate restructuring - such as the decision by Hanson to spin off several businesses.

Strong UK activity helped BZW vault to the top of the underwriting league table. The bank underwrote \$31.6bn in loans, holding a 9.5 per cent market share, up from fifth place in 1995.

While borrowing continued at a high level, interest margins have continued narrowing, defying predictions at the end of 1995 that rates would bottom. Interestingly, margins contracted especially markedly for weaker credit borrowers.

"As a result of banks throwing excess capital at the market, we have seen some borderline credits that usually wouldn't be able to access the loan markets easily," says Mr Fleming at Bank of America. Moreover,

"there has been a compression in prices and structure between stronger and marginal borrowers; this means banks are taking more risks but are not picking up a lot more in return."

There is increasing talk that banks' credit committees will become more selective as they realise that they are taking on tightly-priced loans without getting much in return. Already, last year, there were signs of lender fatigue from banks tired of granting finely-priced loans with little hope of generating ancillary business.

"There's plenty of liquidity, and competition for mandates is fierce, but we've seen some resistance on selected deals," says Grant Johnson, global head of loan syndications at NetWest Markets. But others say resistance is patchy and unlikely to force a shift in attitudes.

"Banks often say one thing and do another - there's no strong evidence so far of lenders getting choosy," says one banker.

Competitive pressures are being compounded by the increasingly aggressive efforts of the big US investment banks - such as Goldman Sachs, Morgan Stanley

and Merrill Lynch - to gain a foothold in the bank lending market.

"We will continue to see investment banks entering this market, if nothing else for defensive reasons," says one banker. "They are trying to broaden their product line into senior bank debt as they see the commercial banks increasingly encroaching on their turf, the securities business."

Indeed, if a secondary syndicated loans market were to develop in Europe, investment banks would be very well placed to apply their securities trading expertise.

Observers are watching with interest an initiative launched by leading commercial banks through the Loan Market Association to establish a secondary market in the debt of large European companies.

"I hope the secondary market for non-distressed bank paper will develop further," says Mr Fleming at Bank of America.

Such a move would bring the London market into line with the US, where bank loans are commonly traded among financial firms as a means of distributing risk and enabling investors to place money into a range of

Top 10 arrangers of Euro-market syndicated loans

Manager or Group	1996				1995			
	Rank	US\$bn	No.	%	Rank	US\$bn	No.	%
BZW	1	31.73	127	9.18	5	21.50	114	5.57
Chase Manhattan Bank	2	25.23	145	7.30	4	22.44	165	6.81
Deutsche Morgan Grenfell	3	24.91	117	7.21	6	21.23	94	5.50
NetWest Markets	4	24.15	122	8.99	3	23.23	133	8.02
Union Bank of Switzerland	5	17.70	123	5.12	7	16.40	111	4.25
ABN-AMRO Bank	6	15.99	115	4.82	8	11.59	103	3.02
Citibank	7	15.43	117	4.47	1	34.82	120	9.02
J.P. Morgan	8	14.83	80	4.29	2	32.01	76	8.29
Bank of America	9	11.76	62	3.40	11	10.64	69	2.78
CSFB/Credit Suisse	10	10.48	60	3.03	9	11.59	46	3.00
Industry total		345.81	1,370	100.00		396.10	1,367	100.00

Source: Capital Data Loanware

Volume of Euro-market syndicated loans by borrower nationality

Manager or Group	1996			1995		
	US\$bn	%	Iss.	US\$bn	%	Iss.
Supranational	820.124	0.29	7	380.516	0.08	3
North America	33,445.480	9.31	51	36,816.933	9.32	122
Western Europe	259,507.826	72.28	855	274,387.344	69.28	1121
Eastern Europe	11,885.174	3.30	120	8,775.773	2.21	141
Middle East	18,312.085	5.11	96	19,112.180	4.82	93
Africa	6,108.610	1.70	69	6,317.789	1.59	68
Indian sub-continent	4,093.124	1.14	66	4,018.947	1.01	58
South-East Asia	7,432.323	2.06	48	12,043.128	3.04	122
Australia & Pacific	1,858.480	0.52	4	4,855.558	1.25	17
Latin America	19,854.547	5.47	145	22,187.711	5.60	220
Caribbean	1,885.642	0.53	12	7,202.695	1.82	27
Other	295.008	0.08	5	75.000	0.02	1
Total	359,140.091	100	1,477	396,304.219	100.00	1691

Source: Capital Data Loanware

financial assets. The banks involved are Barclays, Credit Suisse, Fuji, HSBC Holdings, J.P. Morgan, NatWest, and SBC Warburg.

Meanwhile, the quest for higher returns is pushing

banks into increasingly risky, high-margin sectors, such as acquisition finance, emerging markets and project finance.

In the project finance market, this has begun forcing

down interest margins, interest margins and weakening the terms and conditions attached to the loans, raising fears that banks are becoming exposed to dangerous risks.

M&A: by John Gapper

Europe joins the rush

The awakening of shareholder activism has stimulated a flow of large deals

A casual observer of mergers and acquisitions in 1996 could be forgiven for thinking that the 1980s had returned. A record year for mergers and takeovers in telecommunications and utilities drove M&A volumes to record levels, as investment banks scurried to build up their forces of advisers not only in the US, but across Europe.

The dread words "financial engineering" even made a cautious re-appearance during the year, despite having been discredited in the late 1980s with a rash of leveraged deals that were driven more by spare cash than by industrial logic. This time around, the engineering took the form of making logical industrial deals also appeal to shareholders.

Yet, this time the rush of mergers and acquisitions has come across Europe, rather than being confined largely to the US domestic market, and a sister economy in the UK. The gradual awakening of shareholder activism in Europe, together with deregulation of previously protected industries has stimulated a flow of large deals.

The emblematic deal in Europe was the merger of Ciba and Sandoz, the two Swiss pharmaceuticals companies, while Bell Atlantic's \$21.3bn merger with Nynex within the US was soon matched by British Telecom's \$21.3bn transatlantic bid for MCI, showing the importance of telecommunications in the \$658bn of US transactions.

In the US domestic market, Morgan Stanley had an

exceptionally good year, beating its nearest competitor Goldman Sachs by a wide margin in value of deals. The highest US advisory firms also had a strong year in Europe, taking five of the top 10 places in the league table for cross-border deals after strengthening forces in the 1990s.

"American industry has been restructured and is looking for ways to rationalise," says Bob Scott, global head of investment banking for Morgan Stanley. "The trend in mergers in the 1970s towards industrial diversification as a way of lessening risk has been undone as companies find there is no attraction in running disparate businesses."

Klaus Diederichs, co-head of European mergers and acquisitions for J.P. Morgan, the US bank, says that there has been "an enormous renaissance of activity, and disentangling of corporate relationships" in continental Europe. "Shareholder value is pushing people to rationalise, and think how to get the most from a business," he says.

Companies have also been encouraged to restructure by the advent of low inflation, and a stable economic climate in many countries. "Those companies that survived recession have come out stronger, and clearer about what they need to do, and had a benign environment in which to do it," says David Verey, chairman of Lazard Brothers.

Yet despite the large volumes, M&A activity has not been random. Much of it has been a function of the emergence of global competition in industries such as pharmaceuticals, as well as deregulation of telecommunications. Companies have found it hard to produce strong revenue growth amid low inflation, leading to rapid consolidation.

"The market is being driven by industry themes on a worldwide basis, rather than financial engineering. People are getting together because they can make good businesses. There is a feeling of mutual benefit about the process," says Kevan Watts, head of investment banking in Europe for Merrill Lynch, the US investment bank.

Beyond the ability of companies to seek mergers, there has also been a sense in industries such as US commercial banking of the need to find partners, or become lost in a game of industrial musical chairs. "The manager of medium-sized businesses in some industries may feel it is a

To European financial institutions

Morgan means more breadth in strategic advice

A sample of 1996 publicly announced M&A assignments completed for European clients

AGF
Assurances Générales de France
has been privatised for the French Republic
The underwritten acted as financial adviser to the French Government on this transaction
JPMorgan
June 1996

ALLIANCE LEICESTER
Alliance & Leicester
through its subsidiary Girobank
has acquired Sovereign Finance
the UK asset finance subsidiary of Bank Austria
The underwritten acted as financial adviser to Alliance & Leicester on this transaction
JPMorgan
November 1996

Banco Popolare di Abbiadgrasso
Banco Popolare Abbiadgrasso
has been sold to Banca Agricola Mantovana
The underwritten acted as financial adviser to Banco Popolare Abbiadgrasso on this transaction
JPMorgan
February 1996

Dresdner Bank
has acquired RCM Capital Management Limited Partnership
The underwritten acted as financial adviser to Dresdner Bank on this transaction
JPMorgan
June 1996

Fortis
Fortis International NV
has sold its subsidiary Livforskrings-Aktieselskab Utrecht to Alm. Brand A/S
The underwritten acted as financial adviser to Fortis International NV on this transaction
JPMorgan
January 1996

Legal & General
Legal & General Group Plc
has sold its commercial general insurance business to Guardian Royal Exchange Plc
The underwritten acted as financial adviser to Legal & General on this transaction
JPMorgan
July 1996

Sparbanken Sverige AB (publ)
(Swedish bank)
has demerged its property company Tornet
The underwritten acted as financial adviser to Sparbanken on this transaction
JPMorgan
March 1996

WestLB
Westdeutsche Landesbank Girozentrale
through its subsidiary West Merchant Bank Holdings Limited has acquired Panmure Gordon & Co. Limited from NationsBank Corporation
The underwritten acted as financial adviser to WestLB on this transaction
JPMorgan
March 1996

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Advisers on global completed deals

Adviser	Value (\$bn)	Rank	No. of deals
Morgan Stanley	296,225.0	1	115
Goldman, Sachs & Co.	177,555.5	2	125
Merrill Lynch & Co.	162,757.9	3	139
Credit Suisse First Boston	126,599.2	4	124
J.P. Morgan & Co. Inc.	115,814.3	5	134
Lazard Brothers	88,245.1	6	97
Lazard Frères	82,657.2	7	91
UBS	58,171.2	8	57
Barclays	53,718.9	9	53
Salomon Brothers	48,926.1	10	48

Source: Securities Data Company

Continued on page 6

6 GLOBAL INVESTMENT BANKING

■ New equity issues: by Richard Adams

Pizzas start a revolution

A growing market in Europe helped make 1996 a good year for new equity issues

International investment banks keened to cook up new business were looking in some unusual places last year - including Spanish pizzas.

The strong reaction to the initial public offering of Telepizza, Spain's leading fast-food company, was a symptom of the worldwide demand for new equity issues. And it also showed a widening of the opportunities for primary offerings in Europe.

Telepizza joined other high-growth sector companies in coming to the market in 1996, including famous names such as Gucci, the luxury goods manufacturer that made its second issue in 1996, Saks Fifth Avenue, the US department store group, and Tag Heuer, the Swiss watch manufacturer, among others.

Together with record levels of government privatisation - including the giant offering of Germany's Deutsche Telekom - and the continued hull run on equity markets in the US and Europe, new equity issues provided some of the most attractive returns to investment banks.

And - at least while the Dow Jones average and the FTSE index continue to look healthy - this year promises to be just as lively, driven by the further record bursts of privatisation activity scheduled for 1997.

But the price of this buoyant market has been to attract other banks to move into the business. The increasing competition between investment banks has put downward pressure on margins, especially in equity issues in emerging markets.

Some banks have been able to swim against the tide of narrowing margins. US investment bank Morgan Stanley described 1996 as an "outstanding year" on the primary market. Jerker Johansson, head of equity capital markets for Morgan Stanley in London, said that the bank's average margins had actually risen over the year, thanks to the bank's reputation and investment in research and distribution.

"We have been very active in IPOs, and in IPOs you are typically dealing with big owners. You are dealing with someone who is very dependent on the price and success of their IPO being at a level they feel comfortable with," Mr Johansson said.

"But cutting half a point on the spread is not what it's about - the client wants the

best bank."

Morgan Stanley's major deals in 1996 included the floatation of Gazprom, the giant Russian gas and oil supplier, in the biggest offering ever done in that country. Scania, the Swedish truck manufacturer, and the tricky but ultimately successful floatation of Mediaset, the Italian media group.

While those names may have grabbed headlines, one offering Mr Johansson picked out as "very successful" was that of Credit Communal de Belgique (CCB), the second largest bank in Belgium. Morgan Stanley acted as global co-ordinator for what was Belgium's largest IPO, floating almost 30 per cent of equity on the Brussels bourse for \$1.1bn, with the issue being five times oversubscribed.

Such offerings are an important step in establishing a shareholder culture in Europe. The CCB offering



Jerker Johansson: outstanding year on the primary market

saw 125,000 small domestic investors apply for shares. In Germany, 2.5m individuals signed up for information about Deutsche Telekom's IPO. Similarly, the Telepizza IPO was 154 times oversubscribed in Spain and nearly 12 times over-subscribed internationally. Global co-ordinators for the IPO were BNP Paribas, the banking unit of Banco Bilbao Vizcaya, and Merrill Lynch.

In spite of its small size, worth Pta10.3bn (\$81m), the Telepizza listing represented a cultural revolution, because it belonged to a new sector for Madrid's Bolsa and is likely to encourage other small, family-owned companies to come to the market.

Offerings by as many as five family-owned groups, worth Pta25bn, are understood to be in the pipeline, and a further 10 of a similar size are under serious consideration.

Mr Johansson said that the shift in demand towards Europe for new issues had been even more evident last year. "Morgan Stanley have

traditionally come from a US background. Now, we end up generating more than half of our distribution income in Europe itself," he said. "Every time we sell an offering in Europe we realise the depth of demand existing there."

The US also saw a bumper year for the primary markets. By mid-December, a record total of 867 companies had raised \$50bn.

But even on Wall Street, Europe was making its presence felt. More than \$10bn was raised by the 96 international companies that issued shares in the US for the first time, helping international issuance easily beat the record of 60 companies raising \$6.6bn in 1993. But while Europe's new international offerings in 1993 came from Latin America, in 1996 international offerings came mainly from western Europe.

The largest non-US offering of the year on Wall Street came from the German government's sale of a big piece of Deutsche Telekom on the US market, raising \$1.6bn from US investors out of the total \$13.5bn international deal.

Domestic successes during the year in the US included the IPO of Saks Holdings, the holding company for Saks Fifth Avenue, the upmarket US department store chain. Goldman Sachs headed the team of underwriters for the offering, while CS First Boston, Morgan Stanley and Salomon Brothers were co-leads.

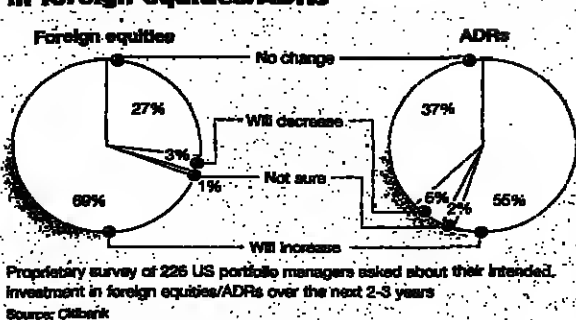
But not everything went perfectly in 1996 - the subsequent performance of top-of-the-range sports watch manufacturer Tag Heuer underlined some of the risks involved.

Salomon Brothers and SBC Warburg were the joint global co-ordinators for the SFR614m (£282.9m) issue, Switzerland's biggest for the year. Interest in the issue was strong and heavily oversubscribed, with shares priced at SFR245 and \$19.55. Yet by December, two months after the IPO, they were trading at SFR177.5 and \$13.75.

Observers say investors had unrealistic expectations of the performance of the company, and were prepared to ignore its negative equity of SFR70m and borrowings of SFR216m. And last year's bull market meant the initial offer price was too high.

For international equity markets, returns may prove to be an area of concern. While the average IPO in the US rose by about 20 per cent, most of the big international offerings were below their offer price by December. Even Deutsche Telekom, which was above its offer price, had returned just 9 per cent by the year's end.

Intended US investment in foreign equities/ADRs



■ US equity issues: by Lisa Branstetter

Champagne on Wall Street

A record of nearly \$115bn of new stock was issued on US markets last year

Champagne bottles were uncorked across Wall Street last month as US investment banks earned record amounts of money in 1996 underwriting the sale of shares to investors hungry for more supply. However, the outlook for this year is cloudy.

Nearly \$115bn of new stock was issued on the US markets passing the previous high of \$103bn set in 1993, according to Securities Data, which tracks transactions. Almost \$50bn of that capital was raised in initial public offerings that brought 867 new companies to market this year, the previous high of 665 companies raising \$34bn also set in 1993.

For the second consecutive year, Goldman Sachs, the US investment bank led the way in equity underwriting, controlling nearly 15 per cent of the market.

Close behind, with market shares of 12 per cent and 11 per cent respectively, were Merrill Lynch and Morgan Stanley.

Among the driving forces in the surge in issuance last year were the dual trends of privatisation and restructuring that have gripped corporations around the world, says Eric Dobkin, head of global equity capital markets at Goldman.

He calls such deals "event-driven transactions" because they are tied to a specific circumstance such as the spin-off of a subsidiary to shareholders rather than the general need for new financing.

"Five years ago offerings were done because debt ratings were under pressure and [companies] needed new capital to expand their operations," he says. "If you look at most of the largest offerings in 1995 and 1996 all of them were event-driven."

For example, the two largest US companies to float last year were Lucent Technologies, the telecommunications equipment company that was spun off from telecoms giant AT&T and Associates First Capital, a finan-

cial services group divested by Ford, the US car maker. The Lucent offering raised \$3bn in the largest offering ever floated on the US market. The Associates raised \$1.7bn.

Similar trends in Europe led to deals such as Fiat's divestiture of its Dutch farm equipment division, New Holland.

The floatation of New Holland raised \$1bn and nearly three quarters of that came from Wall Street. Also, the trend toward global privatisation - such as the German government's sale of Deutsche Telekom to investors in a deal that raised \$1.6bn in the US - should continue to create new supply.

Instead, the key issues for 1997 are: whether money will continue to flood into equity mutual funds as it did in 1996 and whether the stock market will continue to defy the laws of gravity.

"The real question is not the supply but the demand: is there going to be enough cash to continue to put to work in the new issues mar-

US equity offerings

Manager	1996			1995		
	\$m	%	Issued	\$m	%	Issued
Goldman Sachs	16,532.7	14.5	32	14,165.9	17.3	75
Merrill Lynch	14,204.2	12.5	111	11,812.2	14.4	98
Morgan Stanley	12,701.5	11.0	74	9,328.6	11.4	70
Donaldson Lufkin & Jenrette	8,087.8	7.0	86	5,135.5	5.3	47
Smith Barney	7,871.1	6.8	98	5,521.8	5.7	97
Salomon Brothers	5,785.2	5.0	57	2,247.9	2.7	25
Credit Suisse First Boston	5,563.2	4.8	33	4,253.9	5.2	29
Alex Brown & Sons	5,460.4	4.7	87	3,144.2	3.8	57
Lehman Brothers	4,583.6	4.0	59	3,853.4	4.7	42
Montgomery Securities	4,283.3	3.7	74	2,774.8	3.4	58
Industry totals	115,102.8	100.0	1,007	81,364.2	100.0	1,178

Source: Investment Dealers' Digest

■ Securitisation: by Samer Iskandar

Record number of new issues

Investors hungry for yield fuel a need for greater innovation in Europe

Asset securitisation was one of the fastest-growing sectors in the international capital markets in 1996, and bankers remain optimistic on the prospects for 1997, which marks the 10th anniversary of the first European securitisation - a mortgage-backed bond by UK mortgage lender TMC.

The total amount of international new issues last year reached a record as growing sophistication in banks' capacity to analyse securities and hunger for yield drew an ever wider array of investors into the sector.

"The most significant change over the past five years is the increase in the number of investors willing to invest in asset-backed securities (ABS)," says Karl Essig, head of international securitisation at Morgan Stanley in London.

ABSs worth more than \$102bn were launched on international markets, almost three times 1995's volume and more than 10 times 1992's issuance. Western European borrowers accounted for 22.2 per cent of this amount, up from 11.3 per cent the previous year, according to Capital Data.

Market participants are optimistic that the underlying trend in issuance will continue to grow this year, although it is not clear whether a new record will be achieved. Bankers pointed out that issuance in 1996 was partly distorted by the size of three large one-off transactions, which accounted for roughly \$17bn of securities, an occurrence that is unlikely to be repeated.

"Whether 1997 is more active than 1996 will depend on a handful of very large one-off deals happening," says Alexander Juatham, vice-president for structured products at JP Morgan in London.

Things are different in the

Volume of international asset-backed bond issuance, by region*

Manager or group	Whole year 1996			Whole year 1995		
	US\$m	%	Iss	US\$m	%	Iss
Supranational	0.00	0.00	0	340.00	0.88	1
USA & Canada	67,158.44	65.80	222	32,486.87	84.12	25
Western Europe	22,690.61	22.23	86	4,373.23	11.32	33
Belgium	719.27	0.70	4	0.00	0.00	0
Ireland	589.39	0.56	7	738.87	1.91	5
France	7,901.93	7.74	6	0.00	0.00	0
Germany	1,040.01	1.02	4	570.18	1.48	3
Italy	528.08	0.52	3	200.00	0.52	2
Netherlands	706.61	0.69	3	381.88	0.99	3
Spain	1,682.20	1.65	3	786.41	2.04	3
Sweden	0.00	0.00	0	235.87	0.61	2
United Kingdom	9,542.83	9.35	59	1,397.24	3.65	23
Developed Asia	744.97	0.73	2	303.84	0.79	3
Emerging Asia	450.00	0.44	3	0.00	0.00	0
All Middle East	1,200.00	1.18	2	0.00	0.00	0
Latin America	530.00	0.52	3	1,050.00	2.72	3
Others	9,290.42	9.10	29	64.66	0.17	1
Total	102,064.44	100	350	36,617.60	100	285

*Including Vehicle and Banknote

Source: Capital Data Economics

US, a market unanimously described by analysts as "more mature".

Guy Hands, head of principal finance at Nomura International, says: "The US market is driven by the availability of large pools of homogeneous assets," such as mortgages, car loans, credit card receivables, and student loans. As a result, US primary activity is dominated by a limited number of regular issuers, launching several large sized deals every year.

Conversely, last year's landmark issues in Europe were motivated by one-off events, such as company restructurings. Most noteworthy were issues by EPRF, the French state-backed entity set up to help rescue Crédit Lyonnais and GPA, the aircraft leasing company.

The \$5bn ROSE Funding issue on behalf of National Westminster Bank, for example, is unlikely to become a recurring event - after all, the bank securitised one-third of its corporate loans in one transaction. But NatWest Markets, which arranged the deal on behalf of its parent bank, believes it could inspire others.

"A new asset class was opened up by the ROSE structure," says Andy Clapham, director of asset securi-

tisation. "We could potentially see more of this type of deal." Bankers in London agree the transaction "has made everyone in Europe think", but few expect a repeat this year.

"Most types of assets can be securitised," says Guy Hands, "but one has to answer the question: what is being achieved?"

Also, the temptation to securitise large pools of assets is not very strong in Europe. "The main asset holders [savings banks, mortgage lenders, etc] traditionally have been cheaply funded and well capitalised," says J.P. Morgan's Alexander Juatham.

Furthermore, some of the more complicated transactions can take several years of efforts before they can be brought to the market. For example, last year's securitisation of Spanish tax receipts levied to finance the dismantling of nuclear reactors involved drafting legislation that was acceptable to the parliament.

But despite the associated complications, analysts expect further innovation in Europe this year. Carl Essig at Morgan Stanley, which arranged the Spanish "nuclear moratorium bonds", believes that "innovation [in terms of exotic asset classes] is more likely

to originate outside the US".

Some analysts cite European economic and monetary union as a possible catalyst for innovation. "The Cyber-Val deal [linked to the rescue of Crédit Lyonnais] is, in fact, a subsidy for the bank disguised to stop it from appearing in the government's key Maastricht ratios," said one banker.

Such attempts to alleviate governments' finances have also been applied in Italy - in a deal resembling Spain's moratorium bonds - and Ireland - to finance local authorities' mortgages for low-cost housing. In the UK, several issues linked to the Private Finance Initiative were launched. These include the sale of property by the ministry of defence, financed with proceeds from the securitisation of future rents, as well as an issue arranged by Nomura to finance GRS Holding's purchase of Angel Train Contracts from the government.

Guy Hands, at Nomura, believes securitisation "could well change the way lending is conducted". However, a new attitude to lending was made possible by investors' willingness to accept higher levels of risk.

Future development of the market for ABS in Europe will be largely dependent on continuing investor demand.

The largest investment banks in cross-border deals, argue that the overall size of a bank does not matter. "The fact that you have 9,000 people is irrelevant if the vast majority of them are doing something completely irrelevant to a particular deal."

Despite the wider fit of an industry waiting nervously for a downturn in markets, the leading advisory firms talk with confidence of the pipeline of deals in M&A. Most hope that the forces of industrial consolidation will not dry up for some time yet, and will vindicate their decisions to expand around the world.

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December 13, 1996

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Europe joins rush

Continued from page 5

question of jump first, or be jumped upon," says Mr Verrey.

For all this, there has been a strong element of financial engineering in deals such as BT's takeover of MCI. Rothschilds, which advised BT, and the Lazard Houses, advising MCI, tried to find a way of squaring the interest of US shareholders accustomed to high capital growth, with UK sharehold-

ers who place more emphasis on dividend flows.

"Given the rigour which with the market is prepared to criticise and question deals these days, it would be a very foolish company that decided to do something on a wing and a prayer," says Mr Verrey. He says one company chairman he knows always thinks of explaining the deal to a room full of managers from Fidelity Investments.

Revenues from M&A have stood up well despite competition for business, compared with other areas of investment banking such as initial public offerings for the largest government privatisa-

tions. This is largely because of the value attached to the successful completion of deals, and their acceptance by the market.

While the largest investment banks have made strides in Europe, small advisory boutiques and medium-sized firms such as Barings Brothers in the UK and Lazard Frères in France have maintained a strong position in domestic markets. This is partly because of the appeal of houses with no possible conflicts of interest with equities arms.

Tony Alt, a managing director of Rothschild, which succeeded in competing with

مركز الاستثمار

12/24/96

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Auchan

FFr19,400 Million

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August 1996

Deutsche Morgan Grenfell

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LIT500 Billion

Setting up of TPG SpA for leveraged buy-out of Ducati

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September 1996

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MGM Grand, Inc.

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We acted as joint global co-ordinator

June 1996

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US\$200 Million

Convertible bonds

We acted as lead manager

December 1996

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P.T. Telekomunikasi

RP1.436 Billion

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We acted as joint global co-ordinator

December 1996

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Pilipino Telephone Corporation

US\$193 Million

Convertible bonds

We acted as joint global co-ordinator and bookrunner

July 1996

Deutsche Morgan Grenfell

Tingyi Holding Corp.

HK\$1,567 Million

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May 1996

Deutsche Morgan Grenfell

Deutsche Finance (Netherlands) B.V.

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1% DM Global Bonds 2001 Exchangeable into shares of Allianz AG

We acted as lead manager and sole bookrunner

April 1996

Deutsche Morgan Grenfell

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N.E.W.S. - Notes with Equity Warrant Securities

We acted as sole bookrunner

June 1996

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Siemens Capital Corporation

DM250 Million

Convertible bonds

We acted as lead manager

June 1996

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\$15,000,000

Equity Investment

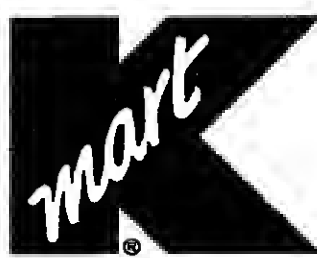
Chase Securities Inc. acted as Arranger on the Senior Secured Credit Facilities, Lead Manager on the Senior Subordinated Notes and Financial Advisor to Hicks, Muse, Tate & Furst, Incorporated. The Chase Manhattan Bank acted as Administrative Agent on the Senior Secured Credit Facilities. Chase Capital Partners provided a portion of the equity financing.



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7.325% Notes due 2037

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Handwritten signature/initials in a box.

FINANCIAL TIMES COMPANIES & MARKETS

Friday January 31 1997

Week 5

IN BRIEF

Serbs buy grain to head off crisis

Serbia, normally a grain exporter, will have to import large amounts of wheat this year, independent analysts said. The effects of a disastrous 1996 harvest have been exacerbated by the government's sale of reserves to raise much-needed hard currency. Page 34

Premier Farnell blames BZW for bungling
The chief executive of Premier Farnell, the UK electronic components distributor, tried to shift the blame for Wednesday's profits warning to BZW, the company's broker. Mr Howard Poulson said the profits warning was "extremely badly handled". Page 27

Paper group warns of falling prices
SCA, the Swedish pulp and paper group, reported a 38 per cent fall in pre-tax profits for last year and warned that pulp prices might fall. Page 22

Fiat reports upswing for profits
Fiat, Italy's largest private group, reported a slight increase in pre-tax profits last year as a result of special gains of around £1,400bn (\$865m) from asset sales. Page 22

Strong results boost Rhône-Poulenc
Rhône-Poulenc, the French drugs and chemicals group, reported a 28 per cent advance to FF2,74bn in 1996 net income, spurred by strong performances from its pharmaceuticals and plant health divisions. Page 22

BCH sees results from restructuring
Spain's Banco Central Hispano (BCH) has seen through a tough financial restructuring programme and begun to deliver improved dividends. The group reported net attributable profits of Ptas33.5bn (\$241.1m) for last year. Page 22

Jollibee misses growth target
Jollibee, the Philippines' largest fast-food chain, fell short of its growth target despite lifting net profits 12 per cent to 603m pesos (\$22.5m) in the year to December 31. Page 26

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Chief price changes yesterday

FRANKFURT (DM)	PARIS (FF)
Alcatel	25.0 + 7.3
BMW	102.5 + 2.5
SEA Pl	544 + 11
Unibet	300.0 + 1.5
Unibet	598 + 13
Unibet	3030 + 140
Unibet	310.5 + 11.3
Unibet	199 + 24
Unibet	20 + 34
Unibet	359 + 24
Unibet	374 + 24
Unibet	324 + 54
Unibet	16 + 24
Unibet	854 + 19
Unibet	1305 + 155
Unibet	20 + 26
Unibet	104 + 59
Unibet	520 + 1124
Unibet	1634 + 21
Unibet	8.95 + 0.85
Unibet	7.1 + 0.35
Unibet	10.05 + 0.85
Unibet	20.0 + 1.5
Unibet	4.75 + 0.4
Unibet	2.0 + 0.85

New York and Toronto prices at 12:30.

British Digital Broadcasting seeks to launch digital terrestrial television in UK

Broadcasters link up for TV bid

By Raymond Snoddy

Carlton Communications, British Sky Broadcasting and the Granada Group will reveal today that they have joined together to bid for the right to launch digital terrestrial television (DTT) in the UK.

The powerful consortium - British Digital Broadcasting - is also believed to have reached agreement with the BBC to broadcast up to eight new subscription channels in what could be one of the biggest shake-ups in British broadcasting.

The UK is the first country

to announce the launch of DTT, which could happen by the middle of 1998.

The presence of British Sky Broadcasting in the three-way equal shares consortium means that subscription television channels such as Sky Sports and Sky Movies could be received without satellite dishes or cable networks. The move complements BSkyB's decision to order 1m digital satellite receivers and launch 200 channels of digital satellite television in the UK before the end of next year.

Applications for four commercial "multiplexes" or

blocks of frequencies have to be received by the Independent Television Commission by noon today. In addition, two multiplexes are reserved for public service broadcasters.

The main challenge to British Digital Broadcasting, to be chaired by Mr Michael Green, chairman of Carlton, will come from a consortium put together by CableTel, the US-owned cable company which also owns NTL, the engineering and transmitter arm of the old Independent Broadcasting Authority. The other members of that consortium are believed to be Lord Hollick's

United News, Canal Plus, the French television subscription company, and Merrill Lynch, the US investment bank.

The advantage of digital terrestrial over satellite is that it can be broadcast from ordinary land-based transmitters and can be received on conventional aerials. It should be possible to broadcast at least 50 television channels, including the existing national channels, in digital picture quality with CD-quality sound.

Under broadcasting legislation one group can own no more than three multiplexes. Half the remaining commercial

multiplex is guaranteed for the use of the Welsh Fourth Channel and S4C will apply to operate the rest of that multiplex. Of the remaining two, one is for the BBC and the other is to be shared by ITV and Channel 4.

The arrival of BSkyB plus channels from the BBC should turn DTT into a commercial proposition. Senior executives of Dixons, the consumer electronics chain, have made it clear that if DTT looked viable it would order television sets with integrated digital circuitry costing only £200 more than conventional sets.

Concentration of power may break with Cadbury recommendations

Glaxo to axe non-executive chairman post

By Daniel Green

Glaxo Wellcome, the world's biggest drugs company, is to break with what many fund managers regard as UK best practice in corporate governance by abolishing the job of non-executive chairman.

In a top management reshuffle, Sir Richard Sykes moves from chief executive and deputy chairman to executive chairman. He will be replaced by Mr Sean Lance, the South African-born managing director of the company.

Sir Colin Cornes, 65, will retire as non-executive chairman after two years in the job. The Cadbury committee in December 1992 said that a company's management structure should "ensure a balance of power and authority, such that no one individual has unfettered powers of decision".

This has since been accepted as meaning that companies should have an independent non-executive chairman balancing the chief executive.

Glaxo said the new arrangement reflected the company's increase in size. When Sir Colin became chairman, Glaxo had yet to launch its takeover of UK rival Wellcome.

The non-executive directors will be led by Sir Roger Hurn, chairman of Smiths Industries,

who becomes a non-executive deputy chairman.

The changes take effect at Glaxo's annual meeting on May 19. Until then, Mr Lance, a karate expert and former captain of the Transvaal hockey team, assumes the new post of chief operating officer.

Mr Lance, 48, joined Glaxo to run its South African business in 1995. He was quickly promoted and at one time or another was responsible for most territories outside the Americas.

Analysts consider him a tough and efficient manager whose experience will be valuable to a company that has 92 per cent of its £8bn a year turnover outside the UK.

Shareholders gave the changes a cautious welcome. "This does not conform to the normal pattern of having a non-executive chairman and a chief executive, and Sykes is not going to be as independent a chairman as we normally like them to be," said Mr Graham Wood, head of UK equities at Standard Life in Edinburgh. "But Roger Hurn will be a strong leader of the non-executive directors and Sykes has an excellent track record running the company."

Observer, Page 15; Lex, Page 20



Sean Lance (left) is to become chief operating officer and Sir Richard Sykes executive chairman

Mercury Finance lawsuit

By John Authers in New York

A class action lawsuit has been filed against Mercury Finance, a Chicago-based finance company that offers loans to buy used cars and was planning to give loans to finance plastic surgery costs. It alleges that its executives had "netted millions of illegal profits".

The action followed the company's announcement on Wednesday that profits for last year were less than half the level announced last week, and that it did not know the whereabouts of its chief finance officer, Mr James Doyle.

A lawyer for Mr Doyle said he was co-operating with fed-

eral authorities. He added: "James Doyle did not disappear. He decided, with the advice of counsel, to no longer participate in the charitable taking place at Mercury Finance."

The suit, filed by the New York law firms of Wolf Popper and Miller Faucher Chertow Cafferty & Walker, attacks the high level of bonuses paid to Mr Doyle and to Mr John Brince, chairman and chief executive.

It alleges that Mr Brince "sold hundreds of thousands of shares of Mercury common stock at inflated prices, netting millions of illegal profits". It also claims that Mr Brince was paid more than \$4m in cash bonuses on the

basis of "fraudulently reported earnings". Mercury Finance's shares have been suspended since Wednesday morning, when it announced that its profits for 1996 had been restated from \$120.7m to \$56.7m. Previous years' profits also needed to be reduced.

Its deal to buy Fidelity Acceptance, the consumer finance unit of BankBoston, is in jeopardy.

The transaction was to be financed in part with Mercury Finance stock. Analysts downgraded their forecasts for Mercury Finance, with Piper Jaffray, a brokerage, saying it was "difficult to assess the extent of the unauthorized transactions".

Telecom Eireann considers flotation in three years

By John Murray Brown

in Dublin

Telecom Eireann, Ireland's state-owned telecommunications company, said yesterday that it was considering a flotation within the next three years.

Mr Alfie Kane, chief executive, also said the company was in discussions on a possible acquisition in South America.

The disclosures coincide with the launch of a strategic alliance with KPN, the Dutch telecommunications company, and Telia, Sweden's state monopoly.

KPN-Telia has the option to buy a further 15 per cent in three years. "As part of the exercise of the option, it's quite likely there will be a public offering," Mr Kane said.

The timing will be critical. In November, the European Commission approved the timetable for liberalising Irish telecommunications in Janu-

ary 2000, three years earlier than the original dispensation awarded by Brussels.

The company faces the prospect of competitors in its home market while undergoing financial restructuring, cutting its debt and payroll costs, and seeking to rebalance its tariff structure. In addition, the company will soon start to pay tax.

TE made pre-tax profits of £116m on sales of £11.1bn last year.

Healthy cash flow has allowed the company to reduce its debt from more than £1bn in 1993 to £703m in March 1996. The debt to equity ratio, which was 250 per cent in 1993, is projected to fall to close to 50 per cent by the end of this financial year.

The company shed 1,200 workers last year, helping to cut £22m from the wage bill.

Hennes & Mauritz to open 50 new outlets

By Greg Melvor in Stockholm

Hennes & Mauritz, the Swedish fashion retailer, is to open a further 50 outlets this year as it continues an explosive growth trail which has made it the hottest stock in the Stockholm bourse.

H&M said the additional stores would include five in Finland, a new market. The company also plans to enter the French market in spring 1998.

The expansion is similar to the rate of growth in 1996, when 52 stores were added on a net basis. The company now operates more than 440 outlets extending southwards from the Nordic countries across much of western Europe.

H&M shares, which have risen 185 per cent in value in the past year, surged yesterday to an all-time high of SKr1,180, although they slipped back to close at SKr1,109, up SKr15 on the day.

The stock has by far the highest nominal value of any share in Stockholm. The company yesterday said the high valuation meant it was planning a 5:1 split in its shares.

H&M's announcement came as it reported a 44 per cent leap in annual profits. Pre-tax profits in the period 1 December 1995 to 30 November 1996 rose from SKr1.3bn to SKr1.9bn, buoyed by an improvement in gross margins from 12.6 per cent to 15.1 per cent.

The company, which is controlled by Mr Stefan Persson, brushed off a weak retail climate in Europe in 1996/97 to post a 26 per cent increase in underlying turnover, including currency effects. Sales advanced from SKr14.6bn (\$2bn) to SKr17.2bn, an increase of 18 per cent.

The company said comparable outlets had increased their sales in local currency across all H&M's markets. Mr Persson, H&M chief executive, attributed the strong performance to price cuts, which had helped to take market share from competitors.

Investment and new start-up costs amounted to SKr677.5m, against SKr588.2m. Return on capital employed rose from 24.3 per cent to 28.3 per cent and earnings per share advanced from SKr23.52 to SKr32.17.

This announcement appears as a matter of record only

December 1996

RAS LAFFAN LIQUEFIED NATURAL GAS COMPANY LIMITED

A joint venture between
Qatar General Petroleum Corporation and Mobil QM Gas Inc.

US\$1,350,000,000 Project Finance Facilities

US\$450,000,000 Term Loan

US\$465,000,000 Export Credit Loan
guaranteed by The Export-Import Bank of the United States

US\$250,000,000 Export Credit Loan
guaranteed by Export Credits Guarantee Department of the United Kingdom

US\$185,000,000 Export Credit Loan
insured by Sezione Speciale per l'Assicurazione del Credito all'Esportazione
for the development of a 5.2 mtpa liquefied natural gas production plant and associated offshore facilities at Ras Laffan, State of Qatar

Arrangers

Arab Petroleum Investments Corporation
Credit Suisse First Boston
Mediocredito Centrale S.p.A.

The Industrial Bank of Japan, Limited
Société Générale

Co-Arrangers

Arab Banking Corporation B.S.C.
Banque Nationale de Paris
Bayerische Landesbank Girozentrale
The Dai-ichi Kangyo Bank, Limited
ING Bank
The Sava Bank, Limited

The Bank of Nova Scotia
Banque Paribas
Citi Bank
The Fajr Bank, Limited
Korea First Bank
The Sanjima Bank, Limited

Global Bookrunners

The Industrial Bank of Japan, Limited
Regional Books (Middle East)
Arab Petroleum Investments Corporation

Commercial Bank Agents

The Industrial Bank of Japan, Limited

ECGD Agent

The Industrial Bank of Japan, Limited

Intercession Agent

Credit Suisse First Boston

Technical Bank

Credit Lyonnais

Insurance Bank

The Sava Bank, Limited

Security Trustee

The Industrial Bank of Japan Trust Company

Co-ordinating Banks

Credit Suisse First Boston
The Industrial Bank of Japan, Limited

Strategic solutions for our clients worldwide.

1996 Selected Transactions

Aames Capital Corporation US \$1.650 billion Mortgage Trust A, B, C, D Aames Financial Corporation US \$388.165 million Common Stock, Convertible Debentures due 2006 Senior Notes due 2001 Co-arranger and co-lead manager December, October, September, June, March, February 1996	Bell Cablemedia plc Offer for Videotron Holdings Plc Joint adviser, post-UP offer manager and arranger for bridge financing December 1996	MFS Communications US \$14.4 billion Merger with WorldCom Inc. Adviser December 1996	Newport News Shipbuilding US \$1.2 billion Spin-off from Teneco Inc. Adviser December 1996	PT Sierad Produce Tbk US \$100 million Initial public offering International placement agent December 1996	Deutsche Telekom AG 690 million shares Largest European privatisation Co-lead manager of UK tranche November 1996	The Government of Israel on behalf of The State of Israel Ffr 1.1 billion Term loan facility Joint arranger November 1996	Humber Power £770 million Non-recourse project finance facility £450 million Project loan facilities 1260 MW gas-fired power station Arranger and lender November 1996
Instituto de Crédito Oficial ESP 20 billion Callable bond due 2001 Sole arranger and underwriter November 1996	Ministry of Defence £1.66 billion Sale of the Married Quarters Estate Adviser November 1996	Pubmaster Limited £171.3 million Acquisition from Brent Walker Group plc Financial and strategic advice to bid and underwritten by NatWest Securities November 1996	Scottish Power plc US \$1.5 billion Euro-commercial paper programme Arranger November, February 1996	Shanghai Diesel Engine Company Limited US \$34 million International placing of 85 million B shares International co-ordinator November 1996	U.S. Eximbank/Raymont Cement Company US \$25.3 million Fixed-rate Eximbank direct credit to support of the supply and construction of a cement plant L/C Bank November 1996	Concord Land Development Company Limited US \$130 million Initial public offering Lead manager and bookrunner October 1996	ENI S.p.A. Global offering of 1.1 billion shares International co-lead manager October 1996
Health and Retirement Properties Trust US \$240 million Convertible subordinated debentures Lead manager October 1996	R.O.S.E. Funding US\$5 billion Asset-backed floating rate notes due 2001 Bookrunner October 1996	The British Land Company PLC £114 million Securitisation of 135 Bishopsgate September 1996	Commonwealth Aluminium US \$425 million Senior secured credit facilities Arranged, structured and underwritten by the facilities September 1996	Ghana Cocoa Board US \$275 million Receivables-backed trade finance facility Pre-export finance of cocoa harvest for 1996-97 Co-arranger September 1996	The Dial Corp US \$2.8 billion Corporate restructuring and spin-off of its consumer products business Adviser August 1996	Geocable PLC £120 million International offering of ordinary shares Joint global bookrunner, adviser and broker August 1996	Hansoo PLC £4.5 billion Demerger financing Joint arranger August 1996
MFS Communications US \$2 billion Acquisition of UUNET Technologies, Inc. Adviser August 1996	Monument Oil & Gas plc Corporate restructuring and return of capital to shareholders Adviser and broker August 1996	Orange Global offering of 325 million shares £250 million Hedging facilities UK and European co-lead manager and arranger August, March, February, January 1996	Somerfield plc £435 million Initial public offering Broker August 1996	Commonwealth of Australia A\$4.1 billion Global offering of 399.1 million ordinary shares in the Commonwealth Bank of Australia Joint lead manager July 1996	Daewoo UK US \$145 million Note purchase agreement Notes distributed via the forfailing market to finance a joint venture in Poland Joint arranger, underwriter and co-arranger July 1996	Koninklijke Ahold N.V. 36 million Common shares Senior co-lead manager July 1996	National Power plc £300 million 8.375% Bonds due 2006 Joint lead manager July 1996
Telewest Communications plc £1.2 billion Senior secured facility Joint arranger July 1996	The Roots Company PLC £300 million Share buyback Broker June 1996	CADES (Caisse d'Amortissement de la Dette Sociale) Ffr 60 billion Revolving credit facility Joint arranger June 1996	Lead Lease Corporation A\$365 million Global offering of Westpac Banking Corporation warrants and ordinary shares Warrant issuer, guarantor and joint lead manager June 1996	PPL Therapeutics plc £35 million Initial public offering Broker June 1996	Sol Melia, S.A. Global offering of 11 million ordinary shares Co-lead manager June 1996	Sun Life and Provincial Holdings Plc Global offering of 224 million shares Broker co-lead manager June 1996	Turbogás - Produtora Energética, S.A. DM679 million & Pte 50.9 billion Senior credit and guarantee facilities for the 900MW Tapada do Oeste Power Station in Portugal Arranger and co-ordinator June 1996
Westpac A\$570 million Share buyback of 5% of capital Adviser to Westpac and joint broker to the buyback June 1996	WorldTel Limited Private placement of ordinary shares Adviser and global coordinator to the financing June 1996	Commercial Union plc £200 million 9.5% Guaranteed Bonds due 2006 Joint bookrunner May 1996	Foreign & Colonial Acquisition of ESN Pension Management Group with £15 billion of assets under management Adviser May 1996	Kommuninvest ESP 10 billion 8.65% Notes due 2001 Joint lead arranger and bookrunner May 1996	The Maiden Group plc £21 million Initial public offering Broker May 1996	NatWest Bancorp US \$446.1 million Sale of leveraged lease portfolio of NatWest Leasing Corporation Arranged and executed May 1996	United News & Media and MAI £3.3 billion Merger creating a leading British based media group Adviser May 1996
The Cable Corporation Project & lease financing £160 million Non-recourse project financing Sole arranger £92 million Lease facilities Sole issuer April 1996	Millennium & Copthorne Hotels plc £180 million Initial public offering Broker and placing agent April 1996	NatWest Group £472 million Recommended offer for Gartmore PLC Adviser April 1996	Premier Farnell plc US \$2.8 billion Acquisition of Premier Industrial Corporation UK and US advisers, provider of debt, equity and hedging facilities April 1996	Rentokil £2.1 billion Offer for BET PLC Primary underwriter April 1996	RJR Nabisco US \$9 billion Successful defence against a proxy solicitation Adviser April 1996	BTR plc £330 million Sale of Dunlop Slazenger to CNVn Adviser March 1996	Dunlop Slazenger Group Limited £371.5 million MBI/MBD Senior debt and working capital facilities Arranger and underwriter March 1996
Zincocelere Lit. 127 billion Management buy-out Co-lead and arranged by NatWest Securities Senior Debt Co-arranged by NatWest Markets March 1996	Bank West A\$437.7 million Initial public offering of 211.5 million ordinary shares by Bank of Scotland Joint lead manager February 1996	Dixons Group plc £100 million 7.75% Guaranteed Bonds due 2001 Sole lead manager February 1996	Energy Africa Combined offering of 10.5 million ordinary shares Co-lead manager February 1996	Pendeford Mortgages No. 1 plc £1 billion Mortgage backed floating rate notes due 2017 Bookrunner February 1996	Cable & Wireless Public Limited Company £200 million 8.75% Bonds due 2012 Bookrunner January 1996	Hyder plc formerly Welsh Water PLC £870 million Recommended offer for South Wales Electricity plc Adviser January 1996	Israel Electric Corporation US \$49.8 million Mandated Eximbank guaranteed loan to finance the purchase of GE gas turbines Arranger/lender January 1996

NatWest Markets is committed to providing strategic solutions for our clients. Our integrated approach combines global M&A, equity and debt financing and advisory expertise with in-depth industry knowledge and independently recognised excellence in research.

NWM

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COMPANIES AND FINANCE: THE AMERICAS / EUROPE

Chase arm in talks on Latin America move

By John Anderson
in New York

Chase Capital Partners, the investment banking arm of Chase Manhattan Bank, is in discussions with a view to forming a joint venture with the privately held Infisa group, of Chile, to invest in the financial services sector throughout Latin America. A formal agreement could be reached today.

Mr John Anderson, a New York spokesman for the bank, said the two companies were "finalising an agreement" yesterday. Chase was not prepared to comment on the likely scale of the deal.

Mr Anderson stressed that the project did not involve the Chase Manhattan Bank itself, and would not create competition with its existing wholesale banking

customers in the region. Chase already has operations throughout Latin America, while Wall Street has reacted favourably to expansion in the region by other US commercial banks.

Citicorp, the second-largest US bank after Chase, has the biggest presence in the region, and has recently embarked on a policy of aggressively adding middle-market corporate customers

in an attempt to sustain its market share.

BankBoston, the 13th-largest US bank, has the second-largest US interest in the region, which Wall Street analysts believe offers stronger growth than can be achieved in the US market.

Infisa has extensive interests in Latin America. It bought a 93 per cent share in Banco Consolidado, the fourth-largest Venezuelan

bank, for \$143.5m in December, and owns a stake in Chile's Banco Concesion. It also has an interest in a Peruvian commercial bank.

There has been a wave of recent sales of leading Venezuelan banks to foreign financial institutions.

In December, Banco Santander, the Spanish bank, bought a 90 per cent stake in Banco de Venezuela, the country's second-largest

bank. In the same month, Spain's Banco de Bilbao de Vizcaya began negotiations to buy 40 per cent of Banco Provincial, Venezuela's largest bank.

Taken together, the sales are expected to lead to a thorough restructuring and upgrading of Venezuela's banking sector, still fragile from a 1994-95 banking crisis that absorbed an estimated \$11bn in state bail-outs.

Large forex deals offered on Internet

By Clay Harris and
James Mackintosh

A Swiss-based enterprise is using the Internet to solicit buyers for large sums of currencies that are freely traded on foreign exchange markets. The activity puzzles currency experts, who wonder why specific deals are being advertised.

Zimmermann & Partner, a business consultancy, is also offering investments in "prime bank guarantees", which it says provide annual returns of up to 600 per cent.

In messages posted on the Internet, Zimmermann describes prime bank guarantees as "very secure" investments. One promises an annual return of 200 to 400 per cent for a minimum investment of \$10m; another says an investment of \$1m to \$100m would bring a return of 200 to 600 per cent.

Regulators including the Bank of England have issued warnings in recent years about the use of prime bank guarantees in advance fee fraud. The instruments purport to be backed by banks. The Bank said this week: "Almost without a doubt, there are not any legitimate prime bank guarantees."

Mr Fritz Zimmermann said yesterday: "We are familiar with the arguments of the banks. But we believe the programme we offer can be carried through." On grounds of discretion, he said, he would not name any of the banks involved.

One reader of an Internet news group has alerted the US Securities and Exchange Commission to his offer.

In the case of foreign exchange, Zimmermann last week responded to an e-mail inquiry with a fax which said it had been contacted by potential purchasers of HK\$700m and HK\$100m who wanted to exchange US dollars. It also said it had recently concluded an

exchange of DM100m into dollars and had a request for purchasing yen for \$500m.

A participant in such a deal, if genuine, might have difficulty in determining that he or she was not an unwitting accessory to laundering or other illegal activity. Fraud is more of a danger outside conventional banking channels.

Mr Zimmermann said: "We run our company only as a middleman between the clients and the participating banks. The money must conclusively be clear, clean and not criminal. Clients receive the detailed clearing procedure only after the details have been checked."

Mr Zimmermann's enterprise is a limited partnership registered in 1993 in Laax in Graubünden canton.

Mr Peter Cridas, managing director of Currency Management Corporation in London, which offers the ability to place orders via the Internet, said someone wanting to exchange such large sums could use the interbank market, where typically no commission would be charged.

He said: "I have been offered such deals [from other sources] which turned out to be fictitious trades and a scam to raise small amounts of money through a finder's fee or something similar."

Mr Chris Dunne, director of Forexia, a London-based currency forecaster, said: "Almost by definition, the people who enter these transactions are looking for something the interbank market can't offer, but what, I couldn't say."

Zimmermann's fax mentioned a potential seller of 500m Iraqi dinars, not affected by the UN embargo, in return for dollars or D-Marks.

Mr Dunne said requests were less unusual for non-convertible currencies.

Analysts grapple with Russian valuations

With few companies producing western-style accounts, alternative methodologies are called for

Markets have often experienced speculative frenzies, be it the explosion of tulip bulb prices in seventeenth century Holland or Florida real estate in the 1920s.

Observers of the Russian stock market may wonder if they are not watching a similar phenomenon.

Having driven the market 155 per cent higher in US dollar terms last year, fund managers have bid up prices almost 50 per cent this month, brushing aside fears about President Boris Yeltsin's health.

The mood is frenetic and much of the buying indiscriminate. One stockbroker recalls overhearing a fund manager screaming down the telephone: "What the hell do you mean there's no such Russian company - I've just bought \$40m of it!"

Mr Mark Mobius, president of Templeton Emerging Markets Fund, describes the rise as a "liquidity surge". Foreign investors have increased their asset allocations for Russia, anticipating its inclusion in the benchmark IFC emerging market index. Domestic banks have been buying as yields on government debt have plummeted.

"People may argue they are buying cheap assets, but at the end of the day it is earnings which drive prices. If you cannot see what those earnings are and the com-

pany is not adhering to shareholder rights, then you risk buying a pig in the poke," Mr Mobius says. "You are just creating conditions for people to gamble."

To date, only a handful of Russia's 110,000 companies produce accounts that would

One stockbroker recalls overhearing a fund manager screaming down the telephone: 'What the hell do you mean there's no such Russian company - I've just bought \$40m of it!'

survive the scrutiny of a diligent investor; almost none make dividend pay-outs on ordinary shares. That makes valuing Russian companies extremely difficult, heightening the dangers of speculative bubbles.

However, some analysts have invented alternative valuation methodologies to assess a company's worth. One of the earliest was to compare crude asset prices in Russia and abroad. So, for example, the implied value

of a barrel of oil in the ground in Siberia would be compared with one in Texas by dividing an oil company's market value by its proven reserves.

"The result was a slew of dramatic-looking broker reports telling investors that Russian companies were undervalued by 99 per cent - or in the expensive sectors by 98 per cent," says Mr James Nail, head of research at Deutsche Morgan Grenfell's Moscow office.

The flaw in this methodology was it could not predict when Russian assets would be revalued ignoring the cost of money. At a time when yields on Russian Treasury bills were above 300 per cent a year, that was a glaring deficiency, Mr Nail says.

Analysts then started valuing companies by what they were producing today rather than guessing what they might produce tomorrow.

Comparisons were made between an electricity generator's market value per kilowatt of output in Moscow and in Berlin, for instance.

The problem here is that a company's earnings are not always linked to output. Some prices are still subsidised, non-payments between companies are rife, and even big enterprises receive much of their income in bartered goods. Enterprises could be increasing output but bleeding cash.

Moscow Times Index



Analysts then turned to market capitalisation-to-turnover valuations. But Russian companies use cash-based accounts rather than the accruals method used in the west. That means sales are only booked when a company receives the cash, making comparative sales figures look extremely erratic.

That prompted the most diligent analysts to reconstruct a company's accounts on an internationally-recognisable basis. Taking its

annual output and guessing the market price of its goods, they made an attempt to forecast sales.

Unpacking stated tax accounts and adding back unrecognised factors such as depreciation charges, they then estimated earnings and cash flow.

But even for the most transparent companies, such estimates vary wildly. One investment bank has calculated Mosenergo, Moscow's electricity utility, stands on

a price/earnings ratio of five; a rival bank suggests the true figure is 16. Many of these valuation techniques also contradict each other.

"On an asset basis Russian companies always look incredibly cheap. On a production basis they still look quite cheap. On a price to sales basis they begin to look like they might be priced about right. But on a p/e basis, taking account of corrected earnings, they all look blatheringly expensive," Mr Nail says.

But just because investors are largely buying blind does not mean they are necessarily wrong. Russia's economy may have turned and companies have enormous scope to lift profits. The stock market's general direction may well be right, even if the precise calibration of its short-term movements is uncheckable.

Mr Arnab Banerji, chief investment officer for Foreign & Colonial's emerging market funds, says the illiquidity of underdeveloped markets means big price movements are often exaggerated but not always misguided.

"If the UK or French stock market surged by 30 per cent I would take profits. But in Russia I am investing on a long-term horizon and betting on the success of economic reform," he says.

John Thornhill

KEYNOTE U.S. FLOATING LIMITED

(Incorporated under the laws of the Cayman Islands)

NOTICE OF A MEETING TO THE NOTEHOLDERS OF KEYNOTE U.S. FLOATING LIMITED U.S.\$80,000,000

Collateralised Enhanced Yield Floating Rate Notes due 2004

NOTICE IS HEREBY GIVEN by Keynote U.S. Floating Limited (the "Issuer") to the holders (the "Noteholders") of the US\$80,000,000 Collateralised Enhanced Yield Floating Rate Notes due 2004 (the "Notes") that, pursuant to the Terms and Conditions of the Notes and the provisions of the Trust Deed dated 2 March 1994 (the "Trust Deed") relating to the Notes (copies of which are available for inspection at the offices of the Issuer and the specified office of each Paying Agent set out below) a meeting of the Noteholders (the "Meeting") will be held at the offices of Clifford Chance, 200 Aldersgate Street, London EC1A 4DJ on 24 February 1997 at 3.00 p.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolution, which will be proposed as an Extraordinary Resolution. Unless otherwise specified, capitalised terms used in this Notice have the meanings given to them in the Trust Deed.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders (the "Noteholders") of the U.S.\$80,000,000 Collateralised Enhanced Yield Floating Rate Notes due 2004 of Keynote U.S. Floating Limited (the "Notes") and the "Issuer" respectively hereby:

(1) approves the modification of the Terms and Conditions of the Notes, as printed on the reverse thereof and in Schedule 4 to the Trust Deed, by the deletion of the words "The Interest Payment Date which falls in March 2004" in the words "Interest Payment Date" in the Conditions, and the substitution thereof of either the words "The Interest Payment Date which falls in March 1997" or the words "17 March 1997", depending on whichever date is the first to occur subsequent to this resolution being approved; and

(2) authorises and requests the Trustee to give effect to the modification referred to in paragraph (1) of this Resolution by executing a Supplemental Trust Deed in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman thereof with such amendments (if any) thereto as the Trustee shall require."

The background to and the reasons for the Extraordinary Resolution are contained in an explanatory memorandum (the "Explanatory Memorandum") dated 31 January 1997 prepared by, amongst others, the Issuer, copies of which will be sent to Noteholders free of charge upon request. To obtain copies of these documents, Noteholders should contact the Issuer or one of the Paying Agents at its specified office.

The attention of Noteholders is particularly drawn to the quorum required for the Meeting set out in paragraph (b) of "Voting and Quorum" below. Noteholders are strongly urged to take steps as soon as possible to be represented at the Meeting, as explained below.

In accordance with normal practice, the Trustee expresses an opinion on the merits of the proposed modifications to the Trust Deed and the Conditions but the Trustee has authorised it to be stated that on the basis of the information contained in this Notice and in the Explanatory Memorandum it has no objection to the Extraordinary Resolution being submitted to the meeting of Noteholders for its consideration.

VOTING AND QUORUM

(a) The Notes are in permanent global form and are held on behalf of Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and CedeL Bank, societies anonymous ("CedeL Bank") for the benefit of the Noteholders. For these purposes the Noteholders are those persons who are for the time being shown in the records of Euroclear or CedeL Bank as the holder of Notes. A Noteholder wishing to attend and vote at the Meeting in person must produce at the Meeting (a) valid voting certificate(s) issued by the Paying Agent relating to the Note(s) in respect of which he wishes to vote. A Noteholder not wishing to attend and vote at the Meeting in person may either deliver his voting certificate to the person whom he wishes to attend on his behalf or give a voting instruction to a Paying Agent (on a voting instruction form obtainable from any Paying Agent) authorising such Paying Agent to appoint a proxy to attend and vote at the meeting in accordance with the Black Voting Instruction to be issued by such Paying Agent. The Black Voting Instruction shall be deposited at the offices of the Principal Paying Agent.

Notes may be held to the order of or under the control of a Paying Agent (to its satisfaction) by CedeL Bank or Euroclear for the purposes of obtaining voting certificates, not later than 48 hours before the time appointed for the Meeting (or, if applicable, any adjournment of such Meeting) or giving voting instructions in respect of the Meeting. Notes so held will not be released until the earlier of the conclusion of the Meeting (or, if applicable, any adjournment of such Meeting) and the surrender of the voting certificates or, not less than 48 hours before the time for which the Meeting is convened, the voting instruction receipt(s) issued in respect thereof.

(b) The quorum required at the Meeting is at least two persons present in person holding voting certificates or being proxies and who together represent not less than three-quarters in principal amount of the Notes for the time being outstanding.

If within 15 minutes from the time fixed for the Meeting a quorum is not present, the Meeting will be adjourned (unless the Issuer and the Trustee agree that it be dissolved) for that period, not being less than 14 days nor more than 42 days, as may be appointed by the Chairman. At such adjourned Meeting two or more persons present in person holding voting certificates or being proxies representing in the aggregate not less than one half in principal amount of the Notes for the time being outstanding shall form a quorum.

(c) To be passed, the Extraordinary Resolution requires the affirmative vote of not less than three-quarters of the persons voting thereon on a show of hands or, if a poll is duly demanded, the affirmative vote of not less than three-quarters of the votes cast thereon. On a show of hands every person who is present in person and produces a Voting Certificate or is a proxy shall have one vote. On a proxy every person who is so present shall have one vote in respect of U.S.\$1,000 in aggregate principal amount of the outstanding Notes(s) represented or held by them. If passed, the Extraordinary Resolution will be binding on all Noteholders (whether or not present or represented at the Meeting and whether or not voting) and upon all Coupons.

The Noteholders will be notified by publication in the Financial Times (or another leading English language daily newspaper published in London) and in the Luxembourgischer Wort (or another daily newspaper published in Luxembourg approved by the Trustee) of the result of voting on the Extraordinary Resolution within 14 days of such result being known, but may contact the Principal Paying Agent at any time following the conclusion of the Meeting for the purpose of ascertaining whether or not the Extraordinary Resolution was passed at the Meeting.

PRINCIPAL PAYING AGENT

Citicorp, N.A.
336 Strand
London WC2R 1HB

PAYING AGENT

Citicorp (Luxembourg) S.A.
16 Avenue Marie-Thérèse
L-2132 Luxembourg

ISSUER

Registered Office of the Issuer
P.O. Box 309, Grand Cayman
Cayman Islands, British West Indies

This Notice is given by Keynote U.S. Floating Limited and is dated 31 January 1997.

Contact details for Euroclear and CedeL Bank are as follows:
Euroclear: Custody Operations Department (telephone: +322 224 1801/2845, telex: 61025 MGTEC BL)
CedeL Bank Securities Management - International Markets (telephone: +352 44 992 8065, telex: 27911)

CITIBANK

Dow Chemical slips in fourth quarter

By Tracy Corrigan in New York

Dow Chemical yesterday reported net income from continuing operations of \$409m in the fourth quarter, down from \$415m in the same quarter of the previous year.

Sales rose 7 per cent to \$4.9bn, as strong volume growth compensated for falling prices.

Earnings per share of \$1.69 were slightly above analysts' estimates of \$1.62 and up from \$1.63 in the same period of the previous year. However, analysts said that 10 cents of earnings came from asset disposals.

Prices of Dow's products fell 3 per cent overall, with some key products, particularly caustic soda and polystyrene, weaker than in the previous year. However, polyethylene and vinyl chloride monomer (VCM) experienced modest price rises.

Dow's performance was also hit by higher feedstock and energy costs. The combined impact of lower prices and higher costs was \$475m in the quarter, but operating income dropped just \$86m from fourth quarter 1995, to \$877m.

The price fall was partially offset by volume growing 10 per cent. This was largely the result of investments in overseas markets, including petrochemicals in Latin America.

Fourth-quarter earnings were

enhanced by gains from selling of non-strategic assets, including a \$77m pre-tax gain for the sale of a stake in Onsis Pipeline.

The company indicated that it will continue to consider asset sales. Analysts said that any further sales were likely to be of smaller businesses. "We will continue to manage the portfolio of businesses actively," a spokeswoman said.

The company's net income for the year of \$2.9bn was just slightly higher than the previous year.

Sales of \$20.1bn for the year were just short of the previous year's record of \$20.2bn. A 7 per cent gain in volume largely offset an 8 per cent price decline.

The company reduced selling, administration and research and development expenses by \$98m last year, and has set a new goal to further reduce structural costs by \$500m by 2000, from a 1995 base.

Return on capital of more than 15 per cent remained higher than the target level of 3 per cent above the cost of capital across the business cycle. The cost of capital is currently around 10 per cent.

Dow Chemical "is on an earnings plateau in the early part of the year and could be hit by falling prices later in the year," cautioned Mr Paul Raman, chemicals analyst at PaineWebber.

Polish power plant poised for flotation

By Christopher Bobinski
in Warsaw

The Warsaw Stock Exchange looks set to see its first listing of a power producer early next year, according to management at the Bedzin heat and power plant in the industrial district of Silesia.

This move would see employees at the plant receive 15 per cent of the equity and provide an example to the rest of the sector.

It comes as opponents of privatisation of the power utilities are preparing to fight a rearguard action in the Senate, parliament's second chamber, to stop a new energy law. This gives third-party access (TPA) to the national power grid and to pipelines for all locally incorporated energy suppliers, and opens the way to the privatisation of the sector.

The bid to remove the crucial TPA clause from the law looks likely to fail. The draft law has already gone through the Sejm, the more important chamber.

Bedzin last year became one of a batch of companies in the power sector chosen by the government as trail-blazers for privatisation, which is crucial if the sector is to raise the billions of dollars needed for modernisation. The others are power distribution companies in Gliwice (also in Silesia) and Poznan, as well as

power producers in Wroclaw and Warsaw and the big lignite-fired PAK complex in central Poland.

But Bedzin is edging ahead of the others. It is being advised by the capital markets unit at the Food Economy Bank (BGZ). The plant, which reported a net profit of 4m zlotys (\$1.34m) on sales worth 7m zlotys last year, is to be audited by London-based Moore Stephens.

Bedzin, according to Mr Jacek Uminski, managing director, is looking to the flotation to produce new capital to finance plans to extend its heat supply network to new consumers and thus cut heavy pollution from small local boilers.

The company, which has spent the past three years installing pollution control filters, currently serves a community of about 90,000. Later, Bedzin plans to take over and modernise neighbouring heat and power plants. The integrated complex would serve a highly urbanised district of some 600,000 inhabitants as a private local supplier of electricity and heat.

The offer will be open to local and foreign investors, with foreign utilities as well as financial institutions welcome to bid. Mr Uminski said. But management at Bedzin appears determined to retain control of the process of building a strong local producer.

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Republic New York Corporation

U.S.\$150,000,000
Puttable Capital Notes

For the six month period ending 31, 1997, the Notes will carry an interest rate of 5.9375% per annum with an interest amount of U.S.\$298.52 per U.S.\$10,000 note payable on July 31, 1997.

January 31, 1997
By Citicorp, N.A. (Corporate Agency and Trust) Agent Bank

Wells Fargo & Company

US\$200,000,000
Floating rate subordinated notes due 2000

In accordance with the provisions of the notes, notice is hereby given that for the interest period 31 January 1997 to 28 February 1997 the notes will carry an interest rate of 5.5625% per annum. Interest payable on the relevant interest payment date 28 February 1997 will amount to US\$43.26 per US\$10,000 note and US\$216.30 per US\$50,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

Notice to Shareholders of **Deutschland Investment Corporation Inc.**

The Annual Report and Dividend Accounts to 31st July, 1996 are now available from the registered office of the company at PO Box 309, Grand Cayman, Cayman Islands, British West Indies, from Robert Fleming & Co. Limited, 25 Copthall Avenue, London EC2R 1JN, and from Morgan Guaranty Trust Company of New York, Avenue des Arts, B-1040, Brussels, Belgium.

31st January, 1997

January 1997

Munksjö AB

Sweden

DM 240,000,000
Revolving Credit Facility

Arrangers

LB & KIL
WESTLB

Lead Managers

CHRISTIANIA BANK OG KREDITKASSE ASA
LB & KIL - WESTLB GROUP
NORDBANKEN AB (PUBL)
SKANDINAVISKA ENSKILDA BANKEN AB (PUBL)
SWEDBANK (SPARBANKEN SVERIGE AB (PUBL))
UNIBANK A/S

Agent

LB & KIL, COPENHAGEN BRANCH

This announcement appears as a matter of record only.

COMPANIES AND FINANCE: THE AMERICAS

AMERICAS NEWS DIGEST

French buy for US insurance broker

Marsh & McLennan, the world's biggest insurance broker, has paid \$200m to take control of France's second-largest broker. The move is significant for the US-based company, which has previously favoured organic growth but which faces fierce competition from two key rivals planning to merge.

The group has acquired Compagnie Européenne de Courtage d'Assurance et de Réassurance (Cecar), which is expected to report gross revenues of FF775m (\$135m) for 1996, and employs 900 staff in 13 countries.

The purchase follows Marsh's decision five years ago to take full control of rival French brokerage Faugère & Juthaux - which last year reported revenues of FF370m - after first buying a one-third stake in 1973.

Marsh plans to merge the two French businesses over the coming months, and will gradually expand their activities to include the full range of services offered by the parent, including employee benefits, consulting and investment services. Cecar's strength is its industrial business, while Faugère specialises in aviation, space and nuclear insurance.

The insurance broking industry has been undergoing a period of rapid consolidation worldwide and a steep decline in rates. Many corporate clients now prefer to pay fees for consultancy work rather than pure broking.

US-based Aon announced last month the purchase of Alexander and Alexander, prompting a wave of speculation about who will merge next.

Mr Ian Smith, chairman of Marsh & McLennan, said insurance broking was "a less mature market" in Europe than in the US. He said that Marsh & McLennan had no plans to make further acquisitions in France, but instead would grow the businesses internally. He stressed there were no plans to lay off existing staff, but rather to increase the number of employees in line with the growth of the business.

The company is also in talks with US property-casualty insurer St Paul Companies about buying loss-making UK broker Minnet, but Mr Smith admitted that Minnet had "not been successful recently", and added that the purchase would take place only if the price was reasonable.

"We do not need it strategically in the UK," he said. The group's long-term strategy was to have revenues from different countries in proportion to the size of the national economies, and it was therefore considering expanding in south-east Asia and Japan.

Marsh yesterday said that income from insurance services during the fourth quarter fell from \$475.1m to \$448.7m, but that total revenue increased from \$558.3m to \$1,050.6m due to growth in its investment management and consulting businesses.

Pre-tax income fell from \$137m to \$92.9m following exceptional costs of \$59.2m relating to UK property and the integration of insurance services operations. "We are optimistic about the growth prospects for our businesses in 1997," said Mr Smith.

Andrew Jack, Paris and Christopher Adams, London

Inco spins off UK unit

Inco, the Toronto-based nickel producer, expects to raise up to US\$125m by spinning off Doncasters, its UK-based engineering products division, through a public share offering. Doncasters has offered 8m American Depositary Shares at \$15.50 each in simultaneous US and international offerings. Credit Suisse First Boston and Schroder Wertheim lead the US underwriting group, while CSFB and Schroders are managers of the international offering.

Proceeds from an over-allotment option of 800,000 ADSs would go to Doncasters. The shares will be listed in New York, starting today.

Doncasters, which traces its origins to a tool-making business in 1778, produces precision components mainly for aircraft engines, and industrial gas and steam turbines. Sales totalled \$282m (\$133m) in the first nine months of 1996. Net income climbed to \$5.2m in the period, from \$2.7m a year earlier.

Inco expects an after-tax gain from the sale of \$29m. It plans to use the proceeds mainly to help pay down debt incurred in last year's acquisition of a controlling stake in the big Voisey's Bay nickel, copper and cobalt deposit in Labrador. Inco has indicated it is open to offers for its other non-mining interests.

Bernard Simon, Toronto

Stone-Consolidated stable

Newspaper producers are reporting the Canadian forest products industry's most stable results for 1996. Stone-Consolidated, the newspaper arm of Chicago's Stone Container and including the big Ellesmere Port mill in the UK, posted net profit of C\$164.3m (US\$122m), or \$1.58 a share, against \$183.5m, or \$2.69, on fewer shares outstanding in 1995. Sales were \$2.2bn, up from \$1.7bn. The increase was mainly due to a US acquisition.

The fourth quarter was affected severely by lower prices, but declining inventories indicate some improvement this year, Stone said.

Robert Gibbins, Montreal

Bre-X sees early deal on Busang

Mr David Walsh, chief executive of Canada's Bre-X Minerals, said yesterday the company was at an advanced stage of talks with its Indonesian partners on the Busang gold deposit and expected an agreement by next week.

"Then we will review the offer by Barrick. What terms Bre-X and Askatindo (Karya Mineral) come to will perhaps lead to Barrick making a revised offer," he said.

Mr Walsh said there were two conditions Bre-X had made in its submission to the Indonesian government with Barrick, outlining their agreement to develop Busang jointly. Without the conditions being satisfied, the Bre-X-Barrick deal would be very tough to make it workable.

Mr Norman Keovil, chief executive of Teck, the Vancouver-based mining group, confirmed Teck had held talks with Bre-X, but said that it would remain on the sidelines unless the Indonesian government opened Busang to a bidding process.

Speculation abounds on the intentions of various participants in the talks on Busang. Mr Keovil said from Jakarta that "where it [Busang] stands now is not too clear to me, and probably not to anybody. The situation is very foggy out there. I can hear two fog-horns, but I am not sure who they are."

Bre-X estimates there are at least 57m ounces of gold currently worth more than \$21bn in the Busang property in rolling hills and rain forest in East Kalimantan province on Borneo Island.

Mr Walsh also said Bre-X was in favour of providing Indonesian interests a bigger stake in Busang. "When all this is resolved, the Indonesian interests will have a stake greater than 20 per cent. This is being worked out now," he said.

Reuters, Jakarta

Phone groups benefit from surging demand

By Richard Waters
in New York

US local telephone companies have entered 1997 with earnings accelerating and profit margins growing, leaving them strongly placed as deregulation begins to take hold in their \$100bn market.

That is the message sent by the financial performance of local phone companies in the final months of last year.

Recent earnings reports show that the companies have mastered the art of selling new, higher-margin services to existing customers.

They are also enjoying a surge in demand for new lines, as US homes add second, and increasingly third or fourth, lines for fax, Internet access and other purposes.

The steady incursion of long-distance companies into their markets, however, is likely to weigh on their growth rates and profitability in the coming months.

AT&T this week took its first step into local calling with a service for small businesses in California, and aims eventually to grab 30 per cent of the market.

A more immediate impact on the companies' results is likely to come from the reform of access charges - the fees paid by

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US local telecoms companies, 1996

	Revenues		Net income/(loss)		Line
	\$bn	growth (%)	(\$m) 1996	(\$m) 1995	growth (%)
GTE	21.3	6.9	2,798	(2,144)	8.1
BellSouth	18.0	6.5	2,863	(1,232)	4.7
Amesbach	14.9	11.1	2,134	2,008	3.4
SBC Comm	13.9	9.7	2,101	(930)	5.1
Nynex	13.5	4.1	1,477	1,850	3.5
Bell Atlantic	13.1	(2.4)	1,882	1,858	3.8
Pacific Telecom	6.6	6.0	1,142	(2,312)	4.2

long-distance companies to have their calls completed over the local carriers' lines.

These fees, which account for 25 per cent of the revenues of some Baby Bells, are set at artificially high levels

to compensate the Bells for providing a universal telephone service, even in uneconomic areas. The Federal Communications Commission has said it will lay out a plan for reforming

access charges by the spring. "There will be a lot of backroom negotiations over access charges going on between now and April," said Ms Anna-Maria Kovacs, an telecoms analyst at Janney Montgomery Scott in Boston. It remained unclear whether the FCC would impose a gradual scaling back of the charges or let a competitive market determine rates immediately, she added.

GTE, the biggest US local service provider, this week gave the most forceful demonstration of the power of local phone companies' existing customer bases.

Unlike the Baby Bells, GTE has been able to enter the long-distance market already, and offers local and long-distance calling on the same telephone bill. This led, in the final nine months of last year, to the addition of 825,000 long-distance customers, the company said.

GTE also saw an 8 per cent jump in the number of access lines it has in service as more Americans added extra lines to their homes. Revenues from higher-margin services such as voice mail grew 35 per cent in the year. These gains helped the company lift its operating profit margin last year from 25.3 per cent in 1995 to 25.7 per cent.

Emergency transport industry providers

14 per cent share of the US ambulance market, with 21,300 employees and operations in 34 states.

AMR still has plenty of room to grow in ambulances. In spite of recent consolidation, about a third of the industry remains in the hands of 2,000 small, mostly family-owned, businesses.

One of AMR's challenges is to persuade local politicians and trade unions to privatise municipal emergency services, which still make up about half the market, including the largest cities. AMR's biggest operation at present is in San Jose, California, with a population of about 900,000.

But ambulances are likely to form only part of AMR's expansion. "We want to move from an ambulance transportation company to... managers of unscheduled health events," says Mr Paul Shirley, an AMR veteran who will stay on as chief executive after the MedTrans merger.

By buying into doctors' practices, nursing services and emergency room (casualty ward) management, AMR aims to provide a one-stop service that will determine the severity of a patient's condition and the treatment required, then

provide the most suitable form of transport. AMR's plan is designed to keep abreast of - and benefit from - the shift in US healthcare from a cost-based, fee-for-service system driven by suppliers, to one where pricing and quality decisions are increasingly in the hands of "managed care" organisations.

These include health insurance companies, large employers, and Medicare, the government agency that funds healthcare for the elderly. Medicare contributes about 30 per cent of AMR's revenues.

Stephens Inc, an Arkansas-based securities firm, estimated in a recent report

that demand for ambulance transport is growing by about 5 per cent a year. But the outlook for profits is dampened by a drive among managed-care companies to cut costs. Fixed per-capita rates are replacing fees. Instead of charging between \$200 and \$700 per call (depending on the type of vehicle dispatched), ambulance operators are having to accept \$5 to \$7 a month for each member of a managed-care organisation to which they are contracted.

Ambulance companies are thus under pressure not only to contain operating costs, but to ensure that patients are steered away from expensive emergency room

treatment unless they really need it. Clinical expertise has increasingly become an integral part of the ambulance business. "It's taking us from a \$10bn industry to a \$30bn one," Mr Shirley says.

AMR aims to combine these strands in a one-stop service known as American Medical Pathways. Its ambulance dispatch centres would screen calls on behalf of managed-care organisations.

The response might range from sending out a vehicle with a full range of life-support equipment, to dispatching a nurse to a patient's home. The goal is to ensure that only patients requiring hospital admission would be brought to an emergency room.

AMR last October bought Stat Healthcare, a well-known provider of emergency room services and dialysis for kidney and diabetes patients. Mr Shirley says future acquisitions are likely to include doctors' practices specialising in emergency care.

AMR plans to introduce the Pathways service in four centres this year, starting with Denver and northern California, and to expand it across most of its operating area in 1998.

It currently has contracts

with 33 hospitals (up from 11 a year ago) to provide emergency department physicians and management services. It announced nine new contracts this week.

While praising the Pathways concept, some outsiders have yet to be convinced it will be a commercial success. The Stat purchase triggered a 20 per cent drop in AMR's share price.

According to Mr Geoff Harris, analyst at Smith Barney in New York, Stat "represents a good test case for AMR's ability to expand its business". Concerns include, in the words of another analyst, "distractions to management in putting together multiple business lines".

None of these concerns apply, however, to AMR's founders. Having taken the company public four years ago at \$8.50 a share, Laidlaw's offer will enable them to cash out at \$40.

Mr Verrochi, just 47, plans to return home to Boston. "What I'm good at is building companies on an entrepreneurial basis," he says. "I'm now looking to consolidate other industries." He has yet to decide which ones.

Bernard Simon

Hilton set to file terms of offer for ITT

By Richard Tomkins
in New York

Hilton Hotels was yesterday poised to launch its hostile \$6.5bn takeover bid for the rival ITT leisure group by filing the terms of its tender offer with the US Securities and Exchange Commission.

ITT has not yet seen details of the \$55-a-share offer, but Hilton Hotels was expected to file them with the SEC late last night or this morning, opening the way for ITT to consider the proposal at its board meeting next Tuesday.

The filing is expected to include details of previous contacts between Hilton Hotels and ITT, in which Mr Stephen Bollenbach, chief executive of Hilton Hotels, expressed an interest in acquiring ITT.

It will also contain details of a lawsuit filed by Hilton Hotels in Nevada seeking to prevent ITT from triggering a "poison pill" provision that would increase the number of ITT directors from 11 to 25.

Hilton Hotels' bid for ITT is expected to take the form of a proxy battle in which Hilton Hotels would propose an alternate slate of directors for election at ITT's annual meeting in the spring.

If ITT's poison pill provision is allowed, it will enable ITT directors to outnumber Hilton Hotels' alternate slate. A hearing of the lawsuit has been set for March 5.

Hilton Hotels is proposing to offer \$5 in cash for 60 per cent of ITT's shares in a tender offer. In a second stage

that would mark completion of the takeover, it would offer stock worth \$55 a share for the remaining half of ITT's equity.

ITT is expected to launch a fierce defence against the takeover, and analysts say Hilton Hotels will probably have to raise its bid. Hilton Hotels' shares were 9% down at \$97 in early trading yesterday. ITT's were 3% down at \$28.

If Hilton Hotels succeeds in its bid, it is expected to raise \$1bn-\$2bn by selling ITT's non-core interests. About \$600m would come from selling ITT's 5 per cent stake in Alcatel Alsthom, the French telecommunications, transport and power engineering group - a legacy of the days when ITT was a telecoms company.

ITT also owns a 50 per cent stake in New York's Madison Square Garden entertainment complex, the New York Knicks and New York Rangers sports teams, and a 50 per cent stake in New York's channel 31 cable television station, held in partnership with Dow Jones.

Its other non-core interests are ITT World Directories, a publisher of Yellow Page telephone directories outside the US, and ITT Educational Services, a chain of technical colleges in the US.

ITT is refusing to comment on its strategy for fighting the bid ahead of its formal response, expected at the end of next week. Its options could include disposing of non-core assets, seeking a white knight, or even launching a counter-bid against Hilton Hotels.

Rooms with a view, Page 19



The Republic of Kazakhstan

Debut Eurobond Issue

U.S. \$200,000,000
9.25% Notes due 1999

ABN AMRO Hoare Govett

CS First Boston

Nomura International

SBC Warburg

Chase Manhattan International Limited

ING Barings

Memill Lynch International

UBS Limited

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Salomon Brothers International Limited

Deutsche Morgan Grenfell

Global Kazkommerts Securities

Société Générale S.T.

ABN AMRO
HOARE GOVETT

December, 1996

To the Holders of the Outstanding

AUTOBACS SEVEN CO., LTD

U.S. \$100,000,000

4 1/4 per cent Bonds due 1999

NOTICE IS HEREBY GIVEN to the Holders of the above Bonds that, at the Meeting of such Holders held at the offices of Clifford Chance, 200 Aldersgate Street, London EC1A 4JL on 24th January, 1997 at 12.30 p.m. (London time), the Extraordinary Resolution to approve the appointment of Total Trust Europe Limited as trustee for the Bonds in place of Total Trust Company of New York with effect from the date thereof as set out in the Notice of Meeting previously notified to Bondholders in accordance with the terms of the Trust Deed for such Bonds was duly passed. The Supplementary Trust Deed recording the effect of the Bonds was duly passed. The Supplementary Trust Deed recording the effect of the Bonds was duly passed. The Supplementary Trust Deed recording the effect of the Bonds was duly passed. The Supplementary Trust Deed recording the effect of the Bonds was duly passed.

Dated: 21st January, 1997

Notice to the Holders of the Outstanding

Pakka Corporation

U.S. \$70,000,000

2 1/4 per cent Guaranteed Bonds due 1999

NOTICE IS HEREBY GIVEN to the Holders of the above Bonds that, at the Meeting of such Holders held at the offices of Clifford Chance, 200 Aldersgate Street, London EC1A 4JL on 22nd January 1997 at 11.00 a.m. (London time), the Extraordinary Resolution to approve the appointment of Total Trust Europe Limited as trustee for the Bonds in place of Total Trust Company of New York with effect from the date thereof as set out in the Notice of Meeting previously notified to Bondholders in accordance with the terms of the Trust Deed for such Bonds was duly passed. The Supplementary Trust Deed recording the effect of the Bonds was duly passed. The Supplementary Trust Deed recording the effect of the Bonds was duly passed. The Supplementary Trust Deed recording the effect of the Bonds was duly passed.

21st January, 1997

COMPANIES AND FINANCE: ASIA-PACIFIC

Strong sales help Petron to record

By Justin Marozzi in Singapore

Petron, the Philippines' largest petrol group, yesterday announced record net profits for the full year of 4,248 pesos (\$161m), after strong sales performance and improved operating efficiency.

Profits were up 5.4 per cent from 4,026 pesos in 1995. Overall sales climbed 8.1 per cent from 54.3m barrels to 58.7m barrels. Turnover of avtur, gasolines, naphtha and solvents enjoyed double-digit growth.

The growth in turnover offset the lower than expected recovery in crude prices, which was a result of

the government's Automatic Pricing Mechanism which adjusts prices monthly. Capacity use rose from 90 per cent to 93 per cent. Market share was 41.4 per cent.

Shares in the group, which is 40 per cent owned by Saudi Aramco, with the Philippine government holding 40 per cent, closed up 50 centavos to 11.5 pesos.

This was in spite of the fall in earnings per share from 0.64 pesos to 0.57 pesos.

Petron and the two other big oil companies in the region, Caltex and Shell Philippines, the local arm of the Anglo-Dutch group, are facing a

potential influx of new competition when the oil sector is fully deregulated. President Ramos has brought deregulation forward one month to February 8.

A number of companies, including Thai Petrochemicals Industry, Mobil and British Petroleum, have expressed interest in the Philippine market.

The government owes the three domestic groups 2.4bn pesos from the Oil Price Stabilisation Fund, a buffer facility which has shielded the Philippines from fluctuations on the global market.

Analysts yesterday questioned

whether Petron would be able to achieve double-digit profit growth after deregulation. At the same time, they doubted whether the government would fully relinquish control of the oil sector.

Petron said it had approved 5.4bn pesos for capital spending in 1997. In preparation for the new competitors, Petron has invested in improvements to its refining facility.

Earlier this month the group signed a 3bn peso contract with Daewoo Engineering of South Korea and Mitsui of Japan to build a 200,000 barrels a day oil refinery. It should start work in early 1998.

Jollibee disappoints despite 12% climb

By Justin Marozzi

Jollibee, the Philippines' largest fast-food chain, yesterday disappointed analysts despite lifting net profit 12 per cent to 603m pesos (\$22.9m) in the year to December 31.

The improvement fell short of the group's target of 20 per cent growth. Sales, which climbed from 6.59bn pesos to 8.28bn pesos, exceeded the target of 25 per cent growth, but increased costs of diversification and expansion meant bottom-line growth was more limited.

The company, whose shares closed unchanged yesterday at 28 pesos, is expanding in Asia and plans to open between 30 and 50 branches a year.

Cost of sales and operating expenses in the fourth quarter rose 28 per cent, from 1.37bn pesos to 1.76bn pesos. Earnings per share declined from 0.76 pesos to 0.69 pesos.

Analysts said they were reviewing forecasts for 1997 earnings after the disappointing results, but stressed the group should perform better within a couple of years.

Last year and this year are planning years for the company, because it is expanding both domestically and internationally," said Mr Frederick de Vera, analyst at ING Barings in Manila.

"You might not see spectacular growth in 1997 either, but after that I think it will be a different story."

Jollibee's success has come from marketing hamburgers and other fast food to suit Filipino tastes.

The company controls about 50 per cent of the fast food market, and is ahead of all its local competitors as well as the usually dominant McDonalds hamburger chain.

ASIA-PACIFIC NEWS DIGEST

CSR 'poised for \$1bn disposals'

CSR, the Australian building materials and sugar group, is poised to raise more than \$1bn (US\$770m) from a shake-up of its Australian timber and US construction material interests, according to a report in the Sydney Morning Herald. The moves are aimed at restoring profit growth and addressing investor concerns about the company's strategic direction, the newspaper said.

Mr Geoff Kells, CSR chief executive, had confirmed the company would sell underperforming businesses and possibly reinvest some of the funds in higher growth operations.

"Following the much lower market in Australia we have undergone a total review of our Australian businesses, and at the same time our underperforming assets in America, and from that have looked at ways of increasing CSR's return on funds," Mr Kells was quoted as saying.

CSR would certainly restructure the Australian timber business. It was also continuing preparations for the sale of \$120m of surplus assets in Australia and in the US.

Reuters, Sydney

Axa-UAP starts China fund

Axa-UAP National Mutual, the insurance group, has launched a \$500m fund in Beijing to target investment in China and elsewhere in Asia, the China Daily newspaper said yesterday. Mr Claude Bebéar, Axa-UAP chairman and chief executive, was quoted as saying: "Up to 70 per cent of the fund's capital may be directly invested in companies in China in high growth industries, primarily those meeting basic consumer and industrial needs."

Reuters, Beijing

YTL gets Thai go-ahead

A consortium led by YTL, the Malaysian power producer with regional ambitions, can now enter Thailand's booming electricity market, having obtained permission from the Malaysian government. The consortium will build a 300MW gas-fired electricity plant in the state of Perlis in northern Malaysia, near the Thai border. It plans to sell the electricity to Thailand's Electricity Generating Authority (Egat). Cost of the project was not available but analysts said it was likely to cost about \$500m.

Ted Bardacke, Bangkok

Hoechst Australia in sell-off

Hoechst Australia, part of the large German pharmaceuticals group, is to sell off its Victorian plastics business to Kemcor Australia, a chemicals company owned jointly by Mobil and Exxon.

No sale price was disclosed. Hoechst Australia in Altona has sales of about \$415m (US\$116m) a year. It employs roughly 250 people. Hoechst has owned the business for around 30 years.

Mr Jens Mohr, managing director of Hoechst Australia, said that the sale partly reflected the worldwide restructuring at Hoechst. The German group has focused its activities on pharmaceuticals, agricultural chemicals and industrial chemicals. The plastics industry has become increasingly competitive, particularly in Australia, as more plants were developed in Asia.

Nikki Tail, Sydney

Keyence hits on a model for success

The challenge now facing Japanese manufacturers is to sustain profits against a background of slow domestic economic growth. A growing number of analysts and management consultants believe an answer might be found in a gleaming high-tech building opposite Osaka station.

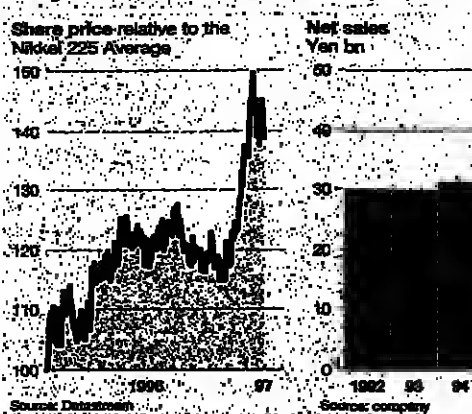
It is the headquarters of Keyence, a hitherto obscure supplier of electronic sensors for industrial use, which by breaking most of the tenets of Japanese management has produced extraordinary profit growth throughout Japan's economic slowdown.

Unusually, Keyence subcontracts most of its production, mainly to other Japanese companies. It is an example of a trend towards what Japanese management consultants call "fab-less" — doing without fabrication plants to avoid Japan's notoriously high manufacturing costs and to focus on more important functions such as product design and marketing.

Nintendo, the video games group, pioneered the model in the 1970s by subcontracting first in Japan and then offshore. It was followed by a handful of others, including Akira, the Tokyo-based supplier of personal computers, and Atlas, which produces games arcade machines.

Keyence is notable for having produced some of the

Keyence: beating the slowdown



fastest profits growth among Japan's fab-less companies. The Nihon Keizai Shimbun financial newspaper has named Keyence Japan's best performing company for the past two years, and its share price has outperformed the Tokyo stock market by nearly 30 per cent over the past 12 months.

"It may very well be the way forward for much of Japanese industry," says Mr James Abegglen, a leading Tokyo management consultant.

Keyence's net earnings almost doubled over the four years to last March, to ¥10.9bn (\$89.4m), and its operating margin of 47 per cent is roughly 10 times the average for quoted Japanese companies. This is all the more remarkable in that,

unlike Japan's high-performing exporters, Keyence devotes 90 per cent of its sales to a sluggish domestic market.

"What is extraordinary is the way Keyence has managed to maintain profit margins throughout the worst recession since the war," says Mr Steve Myers, analyst at Jardine Fleming Securities. "It must be one of the best managed companies in Japan."

Keyence managers admit to being bemused by this praise, maintaining there is no secret to the company's profitability.

Its margins, they point out, have been helped by the company's policy of staying out of manufacturing, with

the exception of a pilot plant which it uses for trying new products, producing confidential lines and testing the quality of its subcontractors' manufacturing.

Recently, they have also been helped by a surplus of small subcontractors, which has allowed Keyence to shop around for the cheapest and most advanced producer. "Equipment quickly becomes obsolete, but that does not bother us. We just pick the factories with the most up-to-date equipment," says Mr Kensho Hashimoto, director responsible for finance.

Another factor in Keyence's success was its move into sensors just as that market was embarking on a long period of growth. Mr Takizaki's first project was a

magnetic sensor used to pick out surplus metal sheets that accidentally found their way on to metal presses in car factories.

The trend to factory automation has helped Keyence. But Mr Hashimoto estimates that since the economic slowdown began six years ago, unit volumes of sensors in use by Japanese industry have been flat or at best slightly increasing.

To create new demand Keyence aims to keep new products coming out fast, so that they account for 30 per cent of annual sales. New products were the main factor in a 15 per cent increase in sales for the six months to last September.

Not everything in the Keyence model is beyond reproach. Analysts have criticised it for spending ¥10bn on a new headquarters, rather than increasing dividends, which last year were at a typically Japanese low level of 4.7 per cent of earnings per share.

Mr Hashimoto replies that the building promotes the atmosphere of creativity, vital to what is essentially a service business. As for dividends, Keyence needs all the capital it can get and prefers not to borrow, he argues. "We still think of ourselves as a developing company."

William Dawkins

KEYNOTE DM LIMITED

(Incorporated under the laws of the Cayman Islands)

NOTICE OF A MEETING TO THE NOTEHOLDERS OF KEYNOTE DM LIMITED

DM\$50,000,000

Collateralised Enhanced Yield Notes due 2004

NOTICE IS HEREBY GIVEN by Keynote DM Limited (the "Issuer") to the holders (the "Noteholders") of the DM\$50,000,000 Collateralised Enhanced Yield Notes due 2004 (the "Notes") that, pursuant to the Terms and Conditions of the Notes and the provisions of the Trust Deed dated 2 March 1994 (the "Trust Deed") relating to the Notes (copies of which are available for inspection at the offices of the Issuer and the specified office of each Paying Agent set out below) a meeting of the Noteholders (the "Meeting") convened by the Issuer will be held at the offices of Clifford Chance, 200 Aldersgate Street, London EC1A 4JL on 24 February 1997 at 4.00 p.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolution, which will be proposed as an Extraordinary Resolution. Unless otherwise specified, capitalised terms used in this Notice have the meanings given to them in the Trust Deed.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders (the "Noteholders") of the DM\$50,000,000 Collateralised Enhanced Yield Notes due 2004 of Keynote DM Limited (the "Notes") and the "Issuer" respectively hereby:

(1) approves the modification of the Terms and Conditions of the Notes, as printed on the reverse thereof and in Schedule 4 to the Trust Deed, by the deletion of the words "Interest Payment Date" which falls in March 2004 in the meaning ascribed to the words "Maturity Date" in the Conditions, and the substitution thereof of either the words "Interest Payment Date" which falls in March 1997 or the words "17 March 1997", depending on whether this Notice is first to be considered and passed or not; and

(2) authorises and requests the Trustee to give effect to the modification referred to in paragraph (1) of this Resolution by executing a Supplemental Trust Deed in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman thereof with such amendments (if any) thereto as the Trustee shall require."

The background to and the reasons for the Extraordinary Resolution are contained in an explanatory memorandum (the "Explanatory Memorandum") dated 31 January 1997 prepared by, amongst others, the Issuer, copies of which will be sent to Noteholders free of charge upon request. To obtain copies of these documents, Noteholders should contact the Issuer or one of the Paying Agents of its specified office.

The attention of Noteholders is particularly drawn to the quorum required for the Meeting set out in paragraph (b) of "Voting and Quorum" below. Noteholders are strongly urged to take steps as soon as possible to be represented at the Meeting, as explained below.

In accordance with normal practice, the Trustee expresses no opinion on the merits of the proposed modifications to the Trust Deed and the Conditions but the Trustee has authorised it to be stated that on the basis of the information contained in this Notice and the Explanatory Memorandum it has no objection to the Extraordinary Resolution being submitted to the meeting of Noteholders for its consideration.

VOTING AND QUORUM

(a) The Notes are in permanent global form and are held on behalf of Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and CedeL Bank, société anonyme ("CedeL Bank") for the benefit of the Noteholders. For these purposes the Noteholders are those persons who are for the time being shown in the records of Euroclear or CedeL Bank as the holder of Notes. A Noteholder wishing to attend and vote at the Meeting in person must produce (a) valid voting certificate(s) issued by the Paying Agent relating to the Notes in respect of which he wishes to vote. A Noteholder not wishing to attend and vote at the Meeting in person may either deliver his voting certificate to the person whom he wishes to attend on his behalf or give a voting instruction to a Paying Agent (on a voting instruction form obtainable from the specified office of any Paying Agent) instructing such Paying Agent to appoint a Proxy to attend and vote at the Meeting in accordance with the Block Voting Instruction to be issued by such Paying Agent. The Block Voting Instruction shall be deposited at the offices of the Principal Paying Agent.

Notes may be held to the order or under the control of a Paying Agent (to its satisfaction) by CedeL Bank or Euroclear for the purposes of obtaining voting certificates, not later than 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of such Meeting) or giving voting instructions in respect of the Meeting. Notes so held will not be released until the earlier of the conclusion of the Meeting (or, if applicable, any adjournment of such Meeting) and the surrender of the voting certificates or, not later than 48 hours before the time for which the Meeting is convened, the voting instruction receipt(s) issued in respect thereof.

(b) The quorum required at the Meeting is at least two persons present in person holding voting certificates or being Proxies and who together represent not less than three-quarters in principal amount of the Notes for the time being outstanding.

If within 15 minutes from the time fixed for the Meeting a quorum is not present, the Meeting will be adjourned (unless the Issuer and the Trustee agree that it be dissolved) for such period, not being less than 14 days nor more than 42 days, as may be appointed by the Chairman. At such adjourned Meeting two or more persons present in person holding voting certificates or being Proxies representing in the aggregate not less than one half in principal amount of the Notes for the time being outstanding shall form a quorum.

(c) To be passed, the Extraordinary Resolution requires the affirmative vote of not less than three-quarters of the persons voting thereon on a show of hands or, if a poll is duly demanded, the affirmative vote of not less than three-quarters of the votes cast thereon. On a show of hands every person who is present in person and produces a Voting Certificate or is a Proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of DM\$1,000 in aggregate principal amount of the outstanding Notes(s) represented or held by them. If passed, the Extraordinary Resolution will be binding on all Noteholders (whether or not present or represented at the Meeting and whether or not voting) and upon all Couponholders.

The Noteholders will be notified by publication in the Financial Times (or another leading English language daily newspaper published in London) and in the Luxembourgian Wort (or another daily newspaper published in Luxembourg) approved by the Trustee of the result of voting on the Extraordinary Resolution within 14 days of such result being known, but may contact the Principal Paying Agent at any time following the conclusion of the Meeting for the purpose of ascertaining whether or not the Extraordinary Resolution was passed at the Meeting.

PRINCIPAL PAYING AGENT
Citibank, N.A.
336 Strand
London WC2R 1HB

PAYING AGENT
Citibank (Luxembourg) S.A.
16 Avenue Marie-Thérèse
L-2132 Luxembourg

ISSUER

Registered Office of the Issuer
P.O. Box 309, Grand Cayman
Cayman Islands, British West Indies

This Notice is given by Keynote DM Limited and is dated 31 January 1997.

Contact details for Euroclear and CedeL Bank are as follows:
Euroclear: Custody Operations Department (telephone: +322 224 1801/2865, telefax: 61025 MGTEC B).
CedeL Bank: Securities Management - International Markets (telephone: +352 44 992 8065, telefax: 2791).

CITIBANK

KEYNOTE U.S. FIXED LIMITED

(Incorporated under the laws of the Cayman Islands)

NOTICE OF A MEETING TO THE NOTEHOLDERS OF KEYNOTE U.S. FIXED LIMITED

U.S.\$50,000,000

Collateralised Enhanced Yield Notes due 2004

NOTICE IS HEREBY GIVEN by Keynote U.S. Fixed Limited (the "Issuer") to the holders (the "Noteholders") of the U.S.\$50,000,000 Collateralised Enhanced Yield Notes due 2004 (the "Notes") that, pursuant to the Terms and Conditions of the Notes and the provisions of the Trust Deed dated 2 March 1994 (the "Trust Deed") relating to the Notes (copies of which are available for inspection at the offices of the Issuer and the specified office of each Paying Agent set out below) a meeting of the Noteholders (the "Meeting") convened by the Issuer will be held at the offices of Clifford Chance, 200 Aldersgate Street, London EC1A 4JL on 24 February 1997 at 3.30 p.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolution, which will be proposed as an Extraordinary Resolution. Unless otherwise specified, capitalised terms used in this Notice have the meanings given to them in the Trust Deed.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders (the "Noteholders") of the U.S.\$50,000,000 Collateralised Enhanced Yield Notes due 2004 of Keynote U.S. Fixed Limited (the "Notes") and the "Issuer" respectively hereby:

(1) approves the modification of the Terms and Conditions of the Notes, as printed on the reverse thereof and in Schedule 4 to the Trust Deed, by the deletion of the words "Interest Payment Date" which falls in March 2004 in the meaning ascribed to the words "Maturity Date" in the Conditions, and the substitution thereof of either the words "Interest Payment Date" which falls in March 1997 or the words "17 March 1997", depending on whether this Notice is first to be considered and passed or not; and

(2) authorises and requests the Trustee to give effect to the modification referred to in paragraph (1) of this Resolution by executing a Supplemental Trust Deed in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman thereof with such amendments (if any) thereto as the Trustee shall require."

The background to and the reasons for the Extraordinary Resolution are contained in an explanatory memorandum (the "Explanatory Memorandum") dated 31 January 1997 prepared by, amongst others, the Issuer, copies of which will be sent to Noteholders free of charge upon request. To obtain copies of these documents, Noteholders should contact the Issuer or one of the Paying Agents of its specified office.

The attention of Noteholders is particularly drawn to the quorum required for the Meeting set out in paragraph (b) of "Voting and Quorum" below. Noteholders are strongly urged to take steps as soon as possible to be represented at the Meeting, as explained below.

In accordance with normal practice, the Trustee expresses no opinion on the merits of the proposed modifications to the Trust Deed and the Conditions but the Trustee has authorised it to be stated that on the basis of the information contained in this Notice and the Explanatory Memorandum it has no objection to the Extraordinary Resolution being submitted to the meeting of Noteholders for its consideration.

VOTING AND QUORUM

(a) The Notes are in permanent global form and are held on behalf of Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and CedeL Bank, société anonyme ("CedeL Bank") for the benefit of the Noteholders. For these purposes the Noteholders are those persons who are for the time being shown in the records of Euroclear or CedeL Bank as the holder of Notes. A Noteholder wishing to attend and vote at the Meeting in person must produce (a) valid voting certificate(s) issued by the Paying Agent relating to the Notes in respect of which he wishes to vote. A Noteholder not wishing to attend and vote at the Meeting in person may either deliver his voting certificate to the person whom he wishes to attend on his behalf or give a voting instruction to a Paying Agent (on a voting instruction form obtainable from the specified office of any Paying Agent) instructing such Paying Agent to appoint a Proxy to attend and vote at the Meeting in accordance with the Block Voting Instruction to be issued by such Paying Agent. The Block Voting Instruction shall be deposited at the offices of the Principal Paying Agent.

Notes may be held to the order or under the control of a Paying Agent (to its satisfaction) by CedeL Bank or Euroclear for the purposes of obtaining voting certificates, not later than 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of such Meeting) or giving voting instructions in respect of the Meeting. Notes so held will not be released until the earlier of the conclusion of the Meeting (or, if applicable, any adjournment of such Meeting) and the surrender of the voting certificates or, not later than 48 hours before the time for which the Meeting is convened, the voting instruction receipt(s) issued in respect thereof.

(b) The quorum required at the Meeting is at least two persons present in person holding voting certificates or being Proxies and who together represent not less than three-quarters in principal amount of the Notes for the time being outstanding.

If within 15 minutes from the time fixed for the Meeting a quorum is not present, the Meeting will be adjourned (unless the Issuer and the Trustee agree that it be dissolved) for such period, not being less than 14 days nor more than 42 days, as may be appointed by the Chairman. At such adjourned Meeting two or more persons present in person holding voting certificates or being Proxies representing in the aggregate not less than one half in principal amount of the Notes for the time being outstanding shall form a quorum.

(c) To be passed, the Extraordinary Resolution requires the affirmative vote of not less than three-quarters of the persons voting thereon on a show of hands or, if a poll is duly demanded, the affirmative vote of not less than three-quarters of the votes cast thereon. On a show of hands every person who is present in person and produces a Voting Certificate or is a Proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of U.S.\$1,000 in aggregate principal amount of the outstanding Notes(s) represented or held by them. If passed, the Extraordinary Resolution will be binding on all Noteholders (whether or not present or represented at the Meeting and whether or not voting) and upon all Couponholders.

The Noteholders will be notified by publication in the Financial Times (or another leading English language daily newspaper published in London) and in the Luxembourgian Wort (or another daily newspaper published in Luxembourg) approved by the Trustee of the result of voting on the Extraordinary Resolution within 14 days of such result being known, but may contact the Principal Paying Agent at any time following the conclusion of the Meeting for the purpose of ascertaining whether or not the Extraordinary Resolution was passed at the Meeting.

PRINCIPAL PAYING AGENT
Citibank, N.A.
336 Strand
London WC2R 1HB

PAYING AGENT
Citibank (Luxembourg) S.A.
16 Avenue Marie-Thérèse
L-2132 Luxembourg

ISSUER

Registered Office of the Issuer
P.O. Box 309, Grand Cayman
Cayman Islands, British West Indies

This Notice is given by Keynote U.S. Fixed Limited and is dated 31 January 1997.

Contact details for Euroclear and CedeL Bank are as follows:
Euroclear: Custody Operations Department (telephone: +322 224 1801/2865, telefax: 61025 MGTEC B).
CedeL Bank: Securities Management - International Markets (telephone: +352 44 992 8065, telefax: 2791).

CITIBANK

NOTICE TO THE NOTEHOLDERS OF KEYNOTE U.S. FLOATING LIMITED

U.S.\$80,000,000

Collateralised Enhanced Yield Floating Rate Notes due 2004

(the "U.S. Floating Notes")

KEYNOTE U.S. FIXED LIMITED

U.S.\$50,000,000

Collateralised Enhanced Yield Notes due 2004

(the "U.S. Fixed Notes")

KEYNOTE DM LIMITED

DM\$50,000,000

Collateralised Enhanced Yield Notes due 2004

(the "DM Notes")

NOTICE IS HEREBY GIVEN of the occurrence of a Trading Account Liquidation and, pursuant to Condition 5(b) of the Terms and Conditions of each of the U.S. Floating Notes, the U.S. Fixed Notes and the DM Notes (each, on "Issue of Notes" and together, the "Notes"), of the commencement today of the period during which Noteholders may exercise the option to have Notes redeemed by Keynote U.S. Floating Limited, Keynote U.S. Fixed Limited and Keynote DM Limited, respectively (each on "Redemption of Notes"). Unless otherwise specified, capitalised terms used in this Notice have the meanings given to them in the Terms and Conditions relating to each issue of Notes.

The Issuers confirm that each issue of Notes is still represented by a Permanent Global Note. Accordingly to exercise the option to have the Notes redeemed, Noteholders should deposit a duly signed and completed Global Exercise Notice (as defined in, and annexed to, the Permanent Global Note issued in respect of each issue of Notes) with Euroclear or CedeL Bank, as the case may be, (with a copy to each Paying Agent) in the form available from any Paying Agent, Euroclear or CedeL Bank, no later than 5.00 p.m. (Brussels time) on 20 February 1997. Upon receipt of a duly completed Global Exercise Notice, Euroclear or CedeL Bank, as the case may be, will debit the Notes referred to in such Notice from the account in which they are held. On the Interest Payment Date falling in March 1997, each Issuer will redeem its Notes referred to in a Global Exercise Notice by delivering to the specified account of such Noteholder Collateral Notes in the same denominations as the Notes in respect of which the Global Exercise Notice is exercised, together with payment of interest at the Minimum Coupon and any payment of Coupon Enhancement (Withholding Compensation and/or Redemption Amount (if applicable)) due on the Interest Payment Date falling in March 1997, all as set out more fully in the Terms and Conditions of each issue of Notes. Any Global Exercise Notice shall be irrevocable once given.

Principal Paying Agent
Citibank, N.A.
336 Strand
London WC2R 1HB

Paying Agent
Citibank (Luxembourg) S.A.
16 Avenue Marie-Thérèse
L-2132 Luxembourg

This Notice is given by each of Keynote U.S. Floating Limited, Keynote U.S. Fixed Limited and Keynote DM Limited and is dated 31 January 1997.

Contact details for Euroclear and CedeL Bank are as follows:
Euroclear: Custody Operations Department (telephone: +322 224 1801/2865, telefax: 61025 MGTEC B).
CedeL Bank: Custody Events (telephone: +352 44 992 8102, telefax: 2791).

CITIBANK

intrum justitia

(Registered in Curaçao No. 41415)

Notice to holders of bearer share certificates

The holders of bearer share certificates of Intrum Justitia N.V., the "Company", are hereby requested to submit a talon to the Company's Paying Agents:

Kredietbank S.A. Luxembourggoelise
43 Boulevard Royal
L-2955 Luxembourg
Luxembourg

Hambros Bank Limited
41 Tower Hill
London EC3N 4BA
United Kingdom

For collection of dividend coupon number 18.

JPX 61/50

COMPANIES AND FINANCE: UK

Claim that profits warning, which hit the share price, was 'badly handled'

Premier Farnell chief blames BZW

By Motoko Rich and Christopher Price

The chief executive of Premier Farnell, the UK electronic components distributor, yesterday tried to shift the blame for Wednesday's bungled profits warning on to BZW, the company's broker.

Speaking from California just before he cut short a business trip to return to London yesterday, Mr Howard Poulson said the profits warning - which came less than a year after the company's controversial \$2.8bn takeover of US company Prism - was "extremely badly handled".

Mr Poulson said the warning, which prompted the shares to fall 25 per cent in two days, was "unnecessary". He said BZW told the company 10 days ago it did not need to issue a warning because it expected profits to fall short of forecasts by only 8 per cent.

But in Wednesday meetings between BZW's analysts and Mr Andrew Fisher, Premier Farnell's finance director, BZW "reversed its view and said we had to put out a trading statement".

Mr Poulson said he would call a board meeting to consider BZW's role. "BZW have got to own up, they called it wrong," he said. He declined to say whether the company would dismiss its brokers over the incident. The shares fell 112 1/2p to 520p.

BZW said it advised the company to issue the warning on Wednesday because "we felt that notwithstanding the relatively small per-

centage profits downgrade that the share price might react adversely." It said the announcement was late because it was contacting directors, including Mr Poulson, in the US, and once it had the statement it "had a duty to issue it" not only in London but in New York.

Mr Poulson said the warning "eroded a lot of confidence in the company, which I think is totally unfounded."

The underlying performance, while not as buoyant as we wanted it, is perfectly satisfactory."

The company said weak market conditions in the US and the UK, as well as the strength of sterling, were responsible for the shortfall in profits. Both the volume business - sold on December 20 to Arrow of the US for \$300m - and the catalogue business - mostly inherited

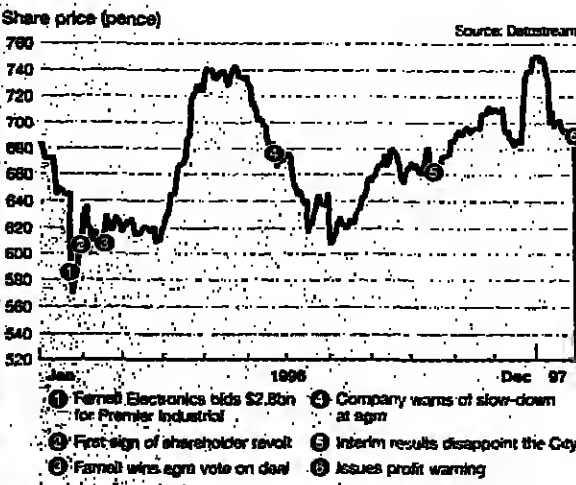
with the Premier acquisition last year - were affected by the downturn in semiconductor markets last year.

Ms Sue Cox, analyst at UBS, said the shares reacted dramatically because the company began cancelling meetings with analysts ahead of the trading statement. Other analysts said the warning justified their concerns about the price paid for Premier.

Short circuit for shareholders



Howard Poulson, Premier Farnell chief executive



Morton L. Mandel, HSBC Investment Services Sp. z o.o. representative

Gulf Canada attacks Clyde forecasts

By Jane Martinson

Gulf Canada Resources yesterday turned its attack on Clyde Petroleum's "unrealistic production forecasts" in its continuing £432m (\$700m) hostile takeover battle.

The Canadian oil and gas group singled out forecasts

for a field bought by Clyde, a UK oil independent, just two days before the bid was launched in December.

In its final defence document published earlier this week, Clyde estimated that the field would produce some 12,600 barrels of oil per day by 1999 after starting next year. Such calculations

helped the group announce a new net asset valuation of 120p a share, above Clyde's 106p a share cash offer.

Using research commissioned from SSI, independent consultants, Gulf described these calculations as "overly optimistic". It based its criticism on the projected speed of the pro-

ject, the fact that Clyde had not yet operated such a field, and that it now claimed a much higher value for a field bought from British Petroleum for up to £8.5m.

Mr Dick Auchincloss, a senior vice president of Gulf, said: "Would BP really sell this asset at a quarter of what it is worth?"

He added that the group "still had some work to do" before next Tuesday, by which time it has to decide whether or not to increase its offer, but "right now it looks a full and fair offer". City analysts believe it will have to raise its offer to win Clyde, with the most likely price about 120p.

Channel tunnel fire benefits P&O

By Charles Batchelor

The fire in the Channel tunnel last November lifted P&O European Ferries' cross-Channel business in the final quarter of 1996, though there was no opportunity to increase rates, the company said yesterday.

However, the rise in passenger numbers was unable to compensate fully for the decline in the number of people using the ferries in the year as a whole. P&O and the other ferry operators transferred ships to the Dover-Calais run and increased the number of sailings while the tunnel ran reduced services during November and December.

The company carried 2.3m passengers and 436,637 cars and coaches between Dover and Calais in the final quarter, against 2m and 379,177 in the final 1995 quarter. It moved 114,814 trucks and truck trailers, against 99,814.

In the year as a whole, however, passenger numbers fell from 9.64m to 9.07m, while car and coach numbers dropped from 1.72m to 1.53m.

Bullough takes £20m charge on French closure

By Roger Taylor

Bullough, the industrial holding company, has given up trying to sell Atal, its loss-making French office furniture subsidiary, and has taken a £20m (\$32.4m) charge against its closure.

Sir Michael Pickard, chairman, said Atal, which lost £5.34m in the year to October 31, had been caught in a "nutcracker" between falling spending by the French government, its biggest customer, and rising restructuring costs as a result of social legislation on redundancies.

After three attempts to sell it, Atal is in the hands of French courts for liquidation.

As part of the restructuring, Bullough has since the year-end sold another nine non-core businesses that in the year produced operating profits of £1m out of a total of £10.8m (£13.2m).

Eight of the sales resulted in a further exceptional loss in 1996 of £1.6m. The ninth, Reznoir, yielded a profit of £7.7m which will appear in the 1997 results.

The disposals generated £16.5m cash, of which £15.6m

has been received since the year-end.

Two more companies are now being sold, after which the group will have completed its restructuring, cutting the number of businesses from 27 to 15.

Excluding exceptionals, Bullough reported pre-tax profits down 45 per cent to £7.99m on static turnover of £345m.

A decline from profits of £7.78m to losses of £1.86m at the refrigeration businesses was responsible for most of the drop in group profits. Mr Gordon Bond, chief executive, said the division had broken even in the second half and was expected to move into profit this year.

Other divisions did better with £6.8m (£4.9m) profits from UK office furniture, £5.9m (£4m) from heating and £5.2m (£5.1m) from engineering. Net debt now is down to £7.4m, giving gearing of 14 per cent.

Excluding exceptionals, earnings per share were 3.42p (6.64p) but the company has maintained the final dividend at 4.3p making a total of 5.47p (6.06p).

CANTRADE PRIVATE BANK SWITZERLAND (C.I.) LIMITED

Notice to Investors in the Troy Trust Service

Cantrade Private Bank Switzerland (C.I.) Limited of Jersey ("Cantrade") requests that investors who have suffered loss as a result of the foreign exchange trading effected through Cantrade on behalf of the Troy Trust Service by Dr. R. Young and his Anagram companies should please contact Cantrade at the following address for further information as to the following proposal:

Cantrade Private Bank Switzerland (C.I.) Limited,
P.O. Box 350,
24 Union Street,
St. Helier,
Jersey JE4 8UJ
Channel Islands, U.K.
Telephone: (44 1534) 611200
Fax: (44 1534) 611221
Contacts: Mr. J. G. Barlocher, Managing Director
Mr. M. D. McLoughlin, Deputy Managing Director

The trading activities of Dr. Young and his companies, on behalf of Mayo Associates SA and other companies comprising the Troy Trust Service, have led to complex litigation in Jersey involving a number of parties. Cantrade is resisting claims made against it and intends to continue to do so.

The Court in Jersey will have to determine where the prime responsibility for the failure to monitor the activities of Dr. Young lies, after having heard the full evidence, at trial. An early trial is not, however, anticipated particularly in the light of the various prosecutions which have now been instituted. Cantrade's intention is therefore to accelerate the compensation to the investors who come within the scope of the proposal as set out in this notice.

The lawyers representing the Troy Trust Service have been asked to co-operate in helping Cantrade to contact investors who may be entitled to benefit but have so far declined to do so. For this reason, Cantrade is itself seeking to trace the investor concerned.

The Proposal

- Cantrade will pay to those general account and F account investors in the Troy Trust Service who accept ("accepting TTS investors") an amount in US dollars equal to the foreign exchange losses incurred by Dr. Young in his dealings with Cantrade on behalf of investors in the Troy Trust Service, in proportion to their individual claims, with commercial interest from the date of the relevant deposit with Cantrade. (Excluded are any persons associated directly or indirectly with the Troy Trust Service who may also have been investors in the Service).
- Accepting TTS investors will be required in return to release any claims which they have against Cantrade, to assign to Cantrade by way of subrogation their rights in respect of their participation in the Troy Trust Service and in foreign exchange trading losses, and to give reasonable assistance to Cantrade at its expense in the pursuit of the rights so assigned.
- The sum payable to accepting TTS investors will be determined by accountants KPMG who will be retained for this purpose by Cantrade at its expense. An accepting TTS investor must give KPMG the necessary information and documents (including as to legal and beneficial ownership) to enable KPMG to assess and determine the compensation due. Should after the appropriate exchange of information KPMG's determination not be accepted, there will be a right of appeal to an independent senior lawyer in Jersey acting as an expert rather than as an arbitrator.
- Payment will be made to accepting TTS investors by Cantrade in Jersey on 30 April, 1997.
- In respect of those investors who have not been located in time to meet that date, or if the sum payable has not been finally determined by that date, or if the legal documentation has not by then been completed, Cantrade will make payment as soon after 30 April, 1997 as is reasonably practical, but reserves the right to specify a final cut-off date.

Adequacy

Investors may have seen some speculation in the press as to how much this proposal may cost Cantrade. The advocate for the Troy Trust Service has been quoted in the press as having rejected the proposal allegedly on behalf of the TTS investor in the grounds that it is inadequate. The Cantrade proposal, however, is to compensate the investors concerned for their actual losses falling within the proposal in full plus interest. Cantrade has placed no financial limit on the offer.

Acceptance

The above is the essence of Cantrade's proposal, which is made without acceptance of any legal liability but on the basis that Cantrade wishes to compensate accepting TTS investors as quickly as possible, leaving the allocation of blame to be determined in due course as between the parties to the litigation, in the light of the facts to be determined by the full evidence at trial.

If you are interested in principle, please contact Cantrade as above. Cantrade is not seeking a contractually binding acceptance at this stage. Before agreeing to be bound, investors who are interested in principle will wish to know the precise figure which is determined as being due, and to have had drafts of the legal documentation they will be asked to sign.

PETROFINA

PROFITS RISE 36%

PetroFina's 1996 consolidated results have been estimated at 16.7 billion BEF, compared with 12.3 billion BEF in 1995, representing an increase of 36%. After minority interests, the Group's contribution to these results has been estimated at 16.0 billion BEF in 1996 (690 BEF per share) compared with 11.6 billion BEF in 1995 (500 BEF per share), representing an increase of 38%. Capital gains on the sale of assets and other extraordinary income were offset by non-recurring charges.

Cashflow for 1996 was 45 billion BEF (1,935 BEF per share) compared with 39 billion BEF in 1995 (1,691 BEF per share).

Compared with 1995, PetroFina's results show three significant trends:

- a significant increase in the results of the upstream sector due to increased crude oil prices and US natural gas prices;
- improved results in the downstream sector in Europe following increased throughput and sales, and further enhanced by better refining margins, with conversion margins in the second half of the year making a strong contribution;
- a drop in the results for the chemical sector due to a general reduction in margins.

In the upstream sector, work on the Ekofisk redevelopment project continues and, in the downstream sector, the competitive advantages of the deep conversion unit at the Antwerp refinery benefited from general market conditions. The chemical sector was supported in both Europe and the USA by enhancements to the Group's industrial plants and by development of new products, however, in Europe, it was only toward year end that product prices were able to reflect mid year increases in raw material costs.

The Group plans to invest 37 billion BEF in 1997 compared with 34 billion BEF in 1996. In the upstream sector, this investment will target the ongoing Ekofisk II project and Armada in the North Sea and Tempa Rossa in Italy. In the chemical sector, it will focus on increasing production through debottleneckings and an expansion programme of the high density polyethylene plant in the USA.

In the downstream sector, investment will extend the marketing operation development initiatives in Europe and in the USA.

The whole press release is available at the Barclays Bank plc, 8 Angel Court, Throgmorton Street, London EC2R 7HT.

PETROFINA s.a., 52 rue de l'Industrie, B-1040 Brussels

COMPANIES AND FINANCE: UK

Southern Electric also plans to return capital to shareholders

Yorks Water in shares rejig

By Jane Martinson

Southern Electric, the power company, is planning to follow Yorkshire Water's lead in announcing an innovative share restructuring as early as today. It could return about £200m (\$324m) to Southern's shareholders.

Shares in the Maidstone-based electricity company rose 16p to 787½p yesterday on expectations of a capital restructuring.

The group, which failed in an attempt to take over Southern Water last year, said in November that it planned to return up to 10 per cent of the company's share capital to shareholders.

In recent weeks it has been talking to shareholders about such a move.

Yorkshire's capital reorganisation scheme, unveiled yesterday, is designed to avoid the tax implications of a share buy-back at the same time as benefiting all shareholders equally.

The type of scheme Yorkshire is implementing is attractive to utilities because of its tax implications, their sensitivity to political pressure over pay-outs, and the belief that they need to improve their balance sheet efficiency.

Yorkshire will return £147m to shareholders through a share split and 9-for-10 consolidation. The



Brian Wilson: restructuring an 'elegant solution' for returning value to shareholders

move avoids tax which would accrue from a buy-back as the cash being distributed is part of the group's ordinary share capital.

The Leeds-based utility was deterred from making a straight 10 per cent buy-back by tax changes that were outlined in last November's Budget, which would have added £30m to the repurchase price.

The group considered a special dividend, which would have had advantages for gross fund shareholders as they could claim tax cred-

its on the Advance Corporation Tax paid. But this would be less advantageous for Yorkshire, as, in line with many other utilities, it has historically paid no mainstream corporation tax, which is used to offset ACT losses.

Yorkshire's shares rose 17½p yesterday to close at 735p.

Analysts estimated that the move would enhance Yorkshire's earnings by 5 per cent in 1997-98.

Gearing is set to increase from 11 per cent to 35 per cent by March.

Mr Brian Wilson, Yorkshire's finance director, said that the restructuring was an "elegant solution" to returning value to all its shareholders at the same time.

"We have chosen a method that gives all our shareholders a chance to participate and gives them the choice over whether to do so or not," he said.

SBC Warburg was behind Yorkshire's move and is understood to have advised Southern Electric, in spite of both companies having different financial advisers.

LEX COMMENT

Buy-backs

The buy-back is dead, long live the buy-back! Following October's tax changes, when the tax advantages of the conventional UK share buy-back were dismantled, rational companies should be handing surplus cash back through special dividends instead. But not always. As Yorkshire Water ingeniously demonstrated yesterday, there are circumstances in which a buy-back can still be made to stack up financially. To many investors, the complexity of its scheme will look mind-boggling. But the essence is simple: by repaying some of its original share capital, Yorkshire avoids incurring an advance corporation tax (ACT) bill. To most companies, this would be only a short-term timing benefit. But since Yorkshire has a massive ACT backlog, the benefit to its case is very real. Crucially, it should be more than enough to offset the loss of the ACT credits for tax-exempt institutions which a special dividend would have generated.

Yorkshire's innovation merely underlines how wasteful recent conventional buy-backs have been. But before anyone gets too excited that a vast new loophole has been discovered, its limits need to be properly understood. It only works where a company has both a big ACT problem and a large share capital or premium account. Moreover, companies can use the latter only while it lasts. So given that yesterday's plan, for instance, will wipe out most of Yorkshire's nominal share capital, its shareholders can only expect the wheeze to work once.

Staveley hit by cost overruns

By Tim Burt

Staveley Industries, the diversified engineering and minerals group, yesterday issued a profits warning over losses at one of its measurement subsidiaries. The shares dropped 23p to 163½p.

The company, which completed a restructuring and cost-cutting programme only last year, said pre-tax profits this year would not exceed the previous £23.2m (\$37.6m), compared with analysts' expectations of £26m-£27m.

Mr Roy Hitchens, chief executive, blamed the difficulties on cost overruns at Chronos Richardson, its measuring instruments man-

ufacturer. "We have removed three managers involved in the problem, which occurred in Chronos Richardson's bagging business," he said. The managers, who have not been named, allegedly agreed manufacturing contracts at below cost in Italy and Germany.

Mr Hitchens said that would result in operating losses this year at Chronos Richardson, which accounts for about 10 per cent of the group's near-£160m annual sales. The company has embarked on a strategic review of the measurement division, which some analysts predicted could lead to its disposal or closure.

RESULTS

Company	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividend corresponding dividend	Total for year	Total last year
Bellway (24)	6 mths to Sept 30	2.68 (3.05)	0.291 (0.128)	0.48 (0.23)	Apr 7	4.3	5.47	6.05
Bellway	Yr to Dec 31	34.7 (34.1)	19.3 (10.54)	16.08 (8.87)	Apr 7	0.75	3.3	3.3
Cambridge Bros	6 mths to Oct 31	4.68 (4.38)	0.354 (0.303)	4.71 (5.4)	Apr 7	0.75	1.5	1.5
Channel	6 mths to Oct 31	28.2 (6.2)	1.38 (0.308)	11 (8.5)	Mar 7	0.55	0.1	0.1
Emmerson	6 mths to Sept 30	2.43 (4.12)	0.251 (0.57)	9.2 (1.3)	Apr 2	1.4	2.7	45
Epil Multiservice	6 mths to Nov 30	2.21 (1.81)	0.221 (1.1)	3.95 (11.54)	Apr 2	0.5	1	1
FI	6 mths to Oct 31	48.5 (37.4)	2.81 (2.09)	6.2 (5.3)	Apr 2	0.5	1	1
Henderson	6 mths to Dec 31	55.8 (51.5)	1.59 (14.9)	49.66 (46.54)	Apr 2	0.5	1	1
Monopack	6 mths to Nov 30	11.9 (12.1)	0.252 (0.216)	1.9 (1.5)	Apr 2	0.5	1	1
Ivarnia West	6 mths to Sept 30	5.45 (13.3)	0.011 (2.78)	0.01 (0.01)	Apr 2	0.5	1	1
Key's Food	6 mths to Sept 30	12 (14.6)	0.899 (1.18)	6.23 (37.28)	Apr 2	0.5	1	1
Linter	6 mths to Sept 30	34.4 (31.2)	0.862 (1.22)	7.5 (10.7)	Apr 2	0.5	1	1
WFF	6 mths to Sept 30	31.5 (32.2)	6.46 (4.94)	3.54 (2.5)	Apr 2	0.5	1	1
Peel	6 mths to Sept 30	4.89 (4.33)	1.34 (1.15)	10.8 (9)	Apr 2	0.5	1	1
Remedon's (Hurry)	Yr to Dec 31	4.89 (4.33)	1.34 (1.15)	10.8 (9)	Apr 2	0.5	1	1

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *Comparatives for 26 weeks. **After exceptional charge. ***After exceptional credit. ****Increased capital. *****Share repurchase. *****Share repurchase. *****Share repurchase.

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FT Surveys

Irish SE to approve junior market

By John Murray Brown

The Irish Stock Exchange will give approval today to the setting up of a Developing Companies Market, to be launched later this year in an effort to counter the dearth of new issues on the main market.

The exchange board will meet to endorse the tax package, unveiled in last week's budget, aimed at enticing small and medium sized companies to go public

as a way of raising funds. The proposals include tax breaks for DCM companies. Exchange officials hope to see up to 12 companies coming to DCM. This contrasts with the main market, some 60-strong, which has seen no new listings since 1994 and its total shrinking because of overseas takeovers.

The target companies are those capitalised between £25m and £20m (£19.7m). The exchange stipulates that companies have to have a

one-year audit record to increase investor comfort and avoid the experience of the Small Companies Market, launched in the 1980s, which collapsed.

The government is offering increased tax allowances for investments made through special investment accounts - similar to the UK's Peps - from £75,000 to £85,000 for shares in DCM companies. The accounts attract 10 per cent capital gains tax.

Mr Tom Byrne, of Davy, the Dublin-based broker, said if five or six companies were to list, DCM would be regarded as a "great success".

Mr Brian O'Kelly, of Riada Stockbrokers, said there was "quite a lot of interest" from technology companies, but warned that DCM's success would depend on the support of local institutions, who have traditionally shied away from Irish companies with small capitalisations.

THE PROPERTY MARKET

For a country still supposedly in recession, there is an awful lot of building going on in Moscow.

The city's skyline is changing by the day as a series of grand monuments, a giant cathedral and scores of smart new office blocks shoot up. The once-dowdy city, dominated by grey Soviet apartment blocks, is rapidly assuming a more colourful and distinctive character as it prepares to celebrate its 800th birthday this year.

The man responsible for this renewal is Mr Yuri Luzhkov, Moscow's mayor, who combines a driving desire to modernise his city with a hands-on management style. Under his influence, Moscow has acquired the feel of a boom town, whatever the depression elsewhere in the country.

That impression is confirmed by office rental prices in Moscow which are among the highest in the world. Although they softened slightly last year as more space came on the market and foreign companies stalled expansion plans ahead of the presidential elections, rents remain at \$80 to \$90 per sq m.

The city government tightly controls the supply of land, releasing only a small number of sites on to the market each year. It is near impossible to acquire freehold sites and leaseholds are restricted to 49 years.

While prime office is still scarce, demand has rocketed. Russia's new privatised companies are all desperate to build gleaming headquarters. Hundreds of foreign corporations have also poured into Russia, hopeful of cornering a

Modernisers in Moscow

Privatised companies are fuelling demand for office space, says John Thornhill

market of 150m people. Among foreign financial institutions, Credit Suisse, Deutsche Bank and Bank of Austria have been rapidly expanding their activities. In the consumer products area, almost all the multinationals, such as Coca-Cola, Mars, Unilever, Nestlé and Procter & Gamble, have established a big presence. And several pharmaceuticals and telecommunications companies have also been clamouring for high-quality headquarters.

The amount of prime office space acceptable to western companies has expanded from 250,000 sq m in 1994 to a projected 950,000 sq m.

A vast underground shopping centre in Manezh square in the shadow of the Kremlin will contain 30,000 sq m of retail space

sq m by the end of this year, but it is a small proportion of the overall office market. There remains about 7m sq m of undeveloped office space in Moscow, much of it extremely poor quality.

Mr Timothy Fenwick, director-general of Jones Lang Wootton's Moscow office, says: "In the past 18 months the stock of international office space has gone up by about 80 per cent with some significant new developments coming on to the market. Demand has therefore been a little bit less feverish but all the space has been taken up."

One of the great drawbacks of the Moscow property market has been the difficulty in financing new developments. Until fairly recently, it was common for developers to demand up to three years' advance rent from tenants in order to finance construction.

Long-term bank loans are difficult to obtain at less than penal rates of interest. There are no real domestic investment institutions. Financing developments is with short-term money and floating interest rates is an inherently risky proposition if the yield curve changes. Theoretically, there should be fantastic opportunities for

western developers to raise cheap long-term capital abroad to build extremely high-yielding office space in Russia. Payback periods can be extremely short, given that implied yields are often as high as 20 per cent in Moscow compared with about 6 per cent in London.

The retail market, virtually non-existent in Moscow a decade ago, has also been blossoming. The population's demand for prestige branded goods and relatively high disposable income has made Moscow's 12m consumers an attractive market for retailers. The McDonald's hamburger chain's 10 restaurants are among its busiest in the world.

GUM, the giant shopping centre on Red Square, has been transformed into an elegant retail emporium. It has attracted dozens of upmarket international retailers to its vaulted arcades, paying annual rents of between \$2,000 to \$4,500 per sq m.

Other retail sites are slowly coming on stream, the most impressive of which is a vast underground shopping centre in Manezh square in the shadow of the Kremlin. The centre, due to open in September, contains 30,000 sq m of retail space on three floors. The development was primarily financed by the city government at an estimated cost of \$30m.

The symbolism of the development is striking and somewhat appropriate for Russia's helter-skelter capitalism. "Here in Manezh square the city government is building a modern shopping centre where, in Soviet times, the tanks were lined up before parading through Red Square," says Mr Fenwick of Jones Lang Wootton.

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PROPERTY FINANCE

Interest in development by property companies, institutional investors, and banks has begun to rise again. But there are concerns about history repeating itself. Andrew Taylor reports

Recovery must not encourage old vices

In October 1989, an item in *The Financial Times* said that if you could see more than a dozen cranes from your office window you were probably looking at the next property recession.

It is far too early to issue a similar warning. Although cranes are once more piercing London's horizon, speculative development remains at a low ebb across the country.

This has not prevented Mr Pen Kent, retiring executive director of the Bank of England, from reminding potential property financiers that history has a nasty habit of repeating itself.

His concern, expressed in a speech last month to the Investment Property Forum, was that lenders enticed by rising commercial values would "relax the basics, such as loan-to-value ratios and income cover" or "take very bullish views on the likely strength of cash flows".

Interest in development by institutional investors, property companies and banks has begun to rise again. Total returns from commercial property are expected to outperform UK equities and bonds over the next 18 months.

According to Mr Kent, there was already "some evidence of incipient over-heat-

ing" in the property market. He said: "We hear that some lenders are seeking to pressurise valuers into higher valuations. This is not a healthy practice and we hope that both the lenders and the valuing profession will be strong enough to resist."

Mr Kent warned: "Many of the ingredients that contributed to the last cycle are certainly present now."

Institutional investors attracted to the sector, in the short term, could easily resume their longer-term departure from property if the sector's performance began to run out of steam and other assets began to look more attractive.

"It is also conceivable that the banks might become disillusioned with property again, particularly if they relax their lending criteria too far in the current exceptionally competitive lending market," cautioned the Bank of England director.

"This could also happen if they are seduced by the outlook for the better properties into taking excessive risks on the secondary and tertiary sectors, for which the outlook generally appears less bright."

According to the bank, lending to property companies has declined by about a quarter from a peak of about

£41bn in 1991 to £30.5bn during the three months to the end of September.

Property debt currently accounts for 8.7 per cent of total commercial lending by banks in the UK, compared with a long-term average of 7.8 per cent and a peak of 12.4 per cent in 1992, according to agents DTZ Debenham Thorpe.

The most recent figures, however, mask an upturn in property lending by the UK clearing banks during 1996. German banks also have been very active in financing UK commercial property investments.

"With banks generally less burdened by bad debts and property market conditions becoming more favourable, the number of banks willing to undertake new lending to the property sector has increased significantly, compared with the early 1990s," says DTZ.

It estimates that there are 120 banks currently "actively" lending to the UK property sector.

This revival of interest

had increased competition among lenders with "margins falling to as low as 0.75 per cent on limited recourse lending compared with 1-1.25 per cent a year ago," said DTZ.

It reported that last year Hammerson, the UK property group, had refinanced a five-year corporate facility - signed in 1992 at margins of 55-75 basis points above Libor - with a new £200m seven-year revolving credit from a consortium of international banks at a margin of 40 basis points above Libor, for the first five years, and 42.5 basis points afterwards.

Banks had also increased loan-to-value ratios "to around 80 per cent compared with 70-75 per cent a couple of years ago - although the banks still remain selective about property location and are generally resistant to rolling up interest."

DTZ expects lending to become more competitive, with UK clearers currently enjoying a period of strong profitability as a result of



Pen Kent said last month there was already 'some evidence of incipient over-heating' in the property market

severe cost-cutting, lower bad debt provisions and improved corporate solvency levels.

Investment in UK property may also provide an attractive alternative to continental European banks and institutions seeking a hedge against mounting economic pressures on the continent as the drive for monetary union intensifies.

This partly explains the sharp rise in German investment in the UK market during the mid-1990s. By comparison, there is only limited evidence of a possible return to UK property by Japanese and US banks.

The financial retrenchment taking place in the Japanese banking sector should in due course allow the expansion of loan books - although it remains debatable whether banks would risk another foray in the UK after burning their fingers so badly in the property market in the 1990s.

The first six months of last year saw an 11 per cent decline in net lending to property companies by Japanese banks. Further write-downs of property loans are expected to be encouraged by the Japanese ministry of finance.

There would appear, however, to be no lack of liquidity to feed UK property investment as the market seems set to continue its recovery.

A recent survey of fund

managers by Merrill Lynch and Gallup reported that 15 per cent more fund managers expected to increase spending on property compared with those planning to reduce their investment.

Property companies, meanwhile, have continued to raise finance in the equity market as their shares have outperformed the stock market.

According to agents Knight Frank, property companies raised £643m between January and November last year, compared with £550m in the previous year.

A significant proportion of this new money was raised by fast-growing companies such as Chelsfield, Pillar and Shaftesbury. A lot of the money was destined for the retail sector.

Much of the financing to date has concentrated on the relatively safe area of completed investments or new developments with substantial pre-lets.

These lending and investment criteria may change, however, as values rise and

shortages of prime properties increase.

An emerging derivatives market shows that the property sector is examining new ways of financing investments, to increase liquidity in the sector.

The announcement in January that BZW Property Index Forwards had raised close to £200m, two months after its launch, was welcomed by Mr Kent.

He said: "There is a renewed push for securitisation, which many investors consider to be crucial if they are to remain in property, and encouraging signs of progress in developing a property derivatives market."

"Both of these would provide essential liquidity to enhance the efficiency of the property market and to ensure that UK business costs remain competitive. This is of national importance."

His biggest concern, however, is that the recovery should not encourage old vices.



Familiar picture: construction site cranes have returned to the London skyline - but speculative development remains at a low ebb across the country

Picture: Julia Fairhead

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II PROPERTY FINANCE

■ Securitisation and derivatives: by David Lawson

Exodus by investors

Property now forms less than 6 per cent of managed funds' portfolios

Bureaucracy and fear are strangling efforts by the property industry to staunch a potentially crippling outflow of resources and restore competitiveness with other forms of investment. Plans for US-style investment trusts and a comprehensive derivatives market may now miss the current market upturn.

Bricks and mortar have always suffered as an investment medium because they are lumpy assets demanding intensive management. Prime property is too expensive for many funds and even the most humble building takes a lot longer to buy and sell than gilts and equities. Pricing is also a problem in a notoriously opaque market.

Such problems remained in the background during decades of high inflation and soaring returns, but have reached crisis point over the past few years. Investors are deserting the sector in droves. Property now forms less than 6 per cent of funds' portfolios - a third the level of a decade ago.

Only recently, Colonial Mutual sold its entire £130m portfolio and Friends Provident traded £120m worth for shares in Benchmark, the Malaysian-backed manager. That is despite forecasts that property returns are expected to return to double digits over the next couple of years.

One alternative to direct investment is to buy shares in property companies but this exposes exempt funds to capital gains and corporate taxes. Another alternative is property unit trusts, which have soared in popularity. The largest, Schroder Exempt, has seen membership triple and funds grow from £175m to £500m in four

years. But the market wants more. Demand for indirect vehicles almost doubled last year to 48 per cent of institutional investors surveyed by JLV Finance.

The greatest effort is going into lobbying for US-style real estate investment trusts (REITs). These are closed-end, relying on share dealing to provide liquidity for investors rather than the potential problems that open-end trusts may face reimbursing investors. They are also tax exempt - but this is also proving the biggest problem in getting them approved.

Long-awaited approval expected in the latest Finance Bill failed to materialise because the Treasury is still unsure whether REITs would drain tax coffers. Pressure continues to be applied by heavyweights such as Alastair Ross Goobey, chief executive of Hermes Pensions Management, and a key government adviser, but chances of a breakthrough under the current government have disappeared.

There are fears that a Labour administration might be even less sympathetic. John Whalley, head of property at the giant AMP Asset management, is less pessimistic, pointing out that politicians of all colours will realise how crucial the sector is for planned urban regeneration. But the sector could be into its next down-cycle by then, restricting chances of success.

Progress is being made in other areas, however. The stock exchange has been quicker to react than the Treasury, changing listing rules to allow a new kind of trust. This lacks the tax neutrality of a REIT and will be open-ended but could prove a useful step in the right direction.

Dusco, the investment management group which made the running in forcing these changes, is planning a trust which could involve funds swapping more than £100m worth of shopping



Alastair Ross Goobey, key government adviser



John Whalley, less pessimistic about the politicians' attitudes

centres for tradeable securities.

Its chairman, Mr Dik Dusseldorp, who has massive experience setting up listed vehicles in Australia and the US, has dismissed industry scepticism that he will be able to accumulate a big enough portfolio and expects trading to begin within months.

Schroder is also understood to have teamed up with NatWest Markets to create an investment trust which achieves results comparable to a REIT without needing changes in tax laws. Investment trusts focused on housing are also being worked on, although these could face problems from the tight rules imposed on types and size of asset.

Meanwhile, the focus on equity securitisation has overshadowed more successful treatment of debt. The £1.6bn purchase of the Ministry of Defence's married quarters housing by Annington, a consortium created for the deal by Nomura, hinged on a £900m securitisation.

"By selling off government risk income streams as a traded security, it was able to achieve pricing around 30 basis points over gilts," says Mr Rupert Clarke, managing director of JLV Finance.

A similar deal was done by NatWest for British Land at a margin of 40 basis points for the Broadgate office complex.

Debt securitisation such as this has been unfairly overshadowed by equity securi-

tisation, he says. The same sophistication is being applied to the creation of a derivatives market, where investors can benefit from property performance without having to touch a building. "Synthetics" such as Property Income Forwards (PIFs), an over-the-counter contract, enable investors to bet on the benchmark IPD Index rather than deal in real property.

Mr Iain Reid, chief executive of BZW Property Investment management, says the fact that PIFA turnover exceeded £200m - including some of the biggest institutional names - within a couple of months of launch shows the strength of demand.

Goldman Sachs, Warburg and Citibank have also tapped this market, using a basket of leading property company shares as proxy for the market. But the real sign that property has caught up with other asset classes will be a non-proprietary contract which can be traded on the futures exchange.

That, too, is in prospect, with a consortium of funds working on proposals. As with REITs, however, the breakthrough has been held back by the network of approvals required from the Securities and Investment Board. Both could emerge in 1997, marking the point at which the property sector finally came of age. But fears remain that they may be delayed long enough to miss the boat.

■ Private Finance Initiatives by Christine Moir

Unrealistic expectations

The industry and government departments may be on a steep learning curve

The property industry agrees on only one thing about the government's Private Finance Initiative: the principle. It must be more efficient for government departments to procure accommodation and services from the private sector than become property developers and managers themselves.

Not only does the PFI shift the property risks to those with the expertise, it also reduces the government's spending requirements.

"For once it is a case of government leading, not following," says Mr Hugh Mulcahey, a partner of property consultants DTZ.

"We are quite positive about PFI and think it will survive the election in some form, if only because it turns public financing requirements into something else."

Mr Mulcahey's enthusiasm is not representative of the property industry as a whole, and even he concedes that it is not "manna from heaven", citing the frustrations of construction-led consortia at the time-consuming and costly process of winning a PFI contract.

His criticisms are muted, however, beside those uncovered by a survey carried out by Price Waterhouse on behalf of the British Property Federation.

The results, published 10 days ago, show the industry dissatisfied with nearly every detail of the process. "Not only is it more complicated than traditional procurement arrangements (and therefore more costly), unsuccessful bidders must carry heavy abortive bidding costs."

The industry thinks government should bear this burden.

Government caps on cost increases during the length of the contract are unacceptable, it says.

The industry wants the freedom to re-base costs where necessary.

● The types and level of risk the private sector is required to take on are perceived to be unacceptable and incompatible with providing value for money.

● The process takes far too long. It needs streamlining.

The criticisms comprise a formidable list but, reading between the lines, the industry seems to be preparing itself for PFI not just to continue but to spill over into the private sector.

According to Price Waterhouse, some respondents have already been approached by private sector companies looking for additional services from their landlords.

As more do so, the structure of the UK property market - based on the traditional 25-year lease, with the tenant responsible for maintenance, repairs and insurance - could change.

Meanwhile, the property industry and government departments both seem to be on a steep learning curve with both sides still harbouring some unrealistic expectations.

Mr David Cain, the executive responsible for property projects at the Private Finance Panel, the body appointed by government to help PFI bed down, accepts that many complaints are justified but the private sector must give credit for improvements that have been made.

Time taken in procurement is falling, he claims. The first two prison contracts - for Fazakerley and Bridgend - took 24 months. The third - for Lowdham Grange - took just 10 months.

The preferred bidder for the Department of Social Services Prime project - involving more than 700 properties - should be named by April, with the contract to be signed by the year end, just 18 months after the project was first advertised.

Mr Cain points out that some of the timing is dictated by European Union regulations beyond the control of the UK. But he says that the panel is working on streamlining document flows to bring the period from pre-



Dr Timothy Stone, returns on PFI contracts can be rewarding

ferred bidder to contract down from the typical six months today to less than three.

Meanwhile, he argues that the property industry should recognise the reduction in costs already achieved.

Bidders need not have full funding in place until they are declared to be the preferred bidder.

Initially, all those on the short list had to show their capital backing.

Shortlists have also been shortened to three or four, reducing the chance of a bid being aborted after the heaviest costs have been incurred.

Mr Cain claims that progress is being made in creating a uniform documentation and in informing bidders of the likely price at which they will need to pitch their bid - both matters criticised by the property industry.

But he argues that bidders should do more themselves to make government departments pay a proper price for the risks they are allocating.

The so-called "Purple Book", published in October as a general guideline, talks of "appropriate risks" and the need to price them.

Value for money could mean a very high price if the

risks are out of the ordinary, he points out.

Some critics question the ability of the panel to make the necessary improvements to the process and to improve government departments' skills in managing contracts.

One complaint is that its executives are typically management consultants or lawyers on short-term secondments.

"They arrive green and leave as wise men," was one anonymous summary.

"They are the key to pepping up PFI and it needs pepping," was another.

Mr Cain denies that the industry is disillusioned with PFI.

"We still get caught in the rush when a project comes to market. Between 50 and 60 expressions of interest are common. Even for Prime we had 30 interested parties, of whom half were well founded."

Mr Cain also deflects criticism of his lack of property skills by pointing out that he has a group of high level property advisers who meet every six weeks or so. This week's agenda was dominated by the impact of PFI on landlord and tenant legislation.

PFI projects are issued under contract law, but once operating, the courts might declare they be treated as leases.

This could conflict with the shift in landlord and tenant responsibilities for which PFI was designed.

Dr Timothy Stone, a national partner with responsibility for PFI at KPMG, observes that the returns on PFI contracts can be rewarding.

Backers can gross between 18 and 30 per cent on the equity element of PFI schemes while mezzanine finance can return between 13 and 15 per cent.

But, he argues, such returns depend on getting the contract right. And that needs expertise.

Dr Stone has a tip for Mr Cain: why not take on someone who has successfully overseen an NHS project, for one day a week?

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Development finance: by David Lawson

Alarm bells may be premature

Bank of England warnings about lending rules may have been a trifle early

The property sector is learning how hard it can be to shake off a bad reputation. A more sniff of recovery and instead of bunting being hung out, alarm bells start ringing.

New Year predictions that property would outperform gilts and equities in 1997 were hardly off the page when Bank of England executive Mr Pen Kent was warning banks earlier this month not to relax lending rules and sow the "seeds of tomorrow's losses".

All very understandable after the tide of bad loans generated in the last period of rapid growth. But little evidence has emerged so far of a lemming-like rush into development finance.

"There are certainly too many banks chasing too lit-

tle business, and new ones opening their doors every month," says Mr Simon Taylor, a partner with Drivers Jonas. "But they are all looking for the same thing: secure investments at conservative loan values."

Institutions are also playing ultra-safe. Funding remained stable at just over £1bn last year, about a third of the £2.5bn sq ft of development under way, according to JLV Finance. But the proportion devoted to speculative schemes fell from 250m to below £300m.

Fears that institutions could lead a charge back into the market spring from the fact that they were responsible for the last mini-surge a couple of years ago. But conditions were different then, says Mr William Hill, manager of Schroder Exempt Property Unit Trust.

"The pricing of development risk was attractive by comparison to yields for investment properties, which were being chased by a wall of money." Funding

was being done from an 8.5 per cent yield with conservative rents. Eden House, a 40,000 sq ft block in Victoria, London, was funded from rents of £25 a sq ft. It was rumoured to have gone for about £30 late last year.

"We were looking for growth we could not get from over-rented stock," says Mr John Whalley, head of property at AMP Asset Management.

Today, rents and land values have moved up, making such margins impossible. Some backing is being provided but almost exclusively on pre-lets. "Funds are in the market to upgrade their portfolios, not take risks," says Mr Rupert Clarke, managing director of JLV Finance.

Such reluctance contrasts with reports as long ago as last summer that speculative finance was making a comeback. An annual survey by DTZ Debenham Thorpe, *Money into Property*, showed banks easing their purse strings and institu-

tions - particularly insurance companies - growing more willing to back speculative development. The contrast lies in the tenses. Little has happened so far but intentions are promising for the future.

The impression that a dam has broken arises from the hype surrounding a few key projects, according to Mr Taylor. But he points out that each has special factors which cannot be generally applied. This was certainly the case when Argent sent shockwaves around the market by funding a £350m speculative development programme covering Thames Valley Park, a City of London office block, and the Birmingham Brindleyplace regeneration.

This complex deal, which took consultants Richard Ellis 18 months to broker, was based on prime sites with historic land prices, hefty equity stakes from the developer - BrITel Pension Fund and Citibank - plus mezzanine finance through

United Bank of Kuwait to top up the £30m senior debt issued by Helaba, Hypobank and DePia.

"It shows that money is there for the right product in the right area, but developers must be able to put up equity," says Mr Malcolm Wilson of Richard Ellis.

Unfortunately for most developers they do not have equity to spare, and big ones with enough fat in their balance sheets usually call on general corporate borrowing - one reason why overall bank lending is rising.

Another headline deal was Petershill, the MEPC office complex next to St Paul's forward funded at about 6.5 per cent by Hermes Pensions Management. "This showed that where the figures and location are right, a fund will put up money to create a long-term investment," says Mr John Moore of DTZ, which acted for Hermes.

Again, however, there were caveats. Even in such a prime location, MEPC had to provide guarantees.



Sign of the times: Petershill was forward funded by Hermes Pensions Management. Picture: Julia Fairhead

Helical Bar, a company worth only £50m, has managed to create a 2m sq ft development programme by proving it can let speculative schemes before completion to partners such as Friend's Provident.

Its commitment comes from "erosion" deals, where profits diminish while space remains empty. But Mr Gerald Kaye, development director, says it is still hard going to find the right schemes which can

provide the extra 1.5 per cent yield cover that funds demand.

This caution will erode during 1997 as property returns outperform gilts and equities, more current schemes are pre-let, and weight of money begins to build, Mr Stephen Eighteen, DTZ Finance managing director, is impatient that more is not already happening.

"Banks are probably being over-careful at this point in the cycle. Risks are

relatively low at the ratios they are lending of 50 to 60 per cent of cost."

Mr Pen Kent obviously prefers a more cautious line as his swansong before retiring this spring. History shows he is right to be worried but the warnings may be a trifle premature.

Another few months may pass before it becomes apparent whether the funding dam is producing a much-needed flow or threatening to burst.

Equity market: by Christine Moir

Too many companies

Fresh attitudes are needed to break the logjam and encourage rationalisation

It is hard to believe that a sector which has so thoroughly fallen out of favour with institutional investors could sprout so many quoted companies. But a glance at the back pages of the FT reveals more than 130 quoted property companies, despite the fact that property has shrunk to under 5 per cent of institutional portfolios.

Most have a market capitalisation of under £50m, the floor below which most institutions say they have no interest. All are chasing the same small shoal of developments or the even smaller stock of trophy buildings (where they are also compet-

ing with European funds as well as a few UK institutions.)

As one leading fund manager said recently: "This is an intolerable duplication of resources". But there is no sign of a shake-out in the sector. So why does the oversupply continue?

Cynical merchant bankers put it down to three factors: huge egos; rag bag portfolios; and hidden liabilities.

The property sector has succumbed less than most others to the drive for professional management. Many are still controlled by charismatic entrepreneurs who want no part in the statey pavane of maximising shareholder value by merger and acquisition. Agreed takeovers hold no attractions for them. They simply stand by to repel boarders.

Not that there are many would-be attackers these days. On the whole, those in

a position to mount takeover bids would themselves prefer to be out in the field building their own portfolios through development or wheeling and dealing.

Other people's portfolios, built up as eccentrically as their own, have limited appeal. Some properties will be attractive; others not. Moreover, to acquire them by way of a corporate takeover would mean paying a premium over Net Asset Value. That would only be worth the candle if the assets promised significant capital growth or could be swiftly sold on.

Neither path looks very certain today. For all the attempts by the leading property agencies to talk up capital values by predicting rental growth round the corner and increased international buying interest, the property market stays stubbornly quiet.

And institutions are simply not interested in adding to property portfolios which return less than gilts but with none of the growth prospects of equities.

Hostile bids for property companies also face more potential pitfalls than for most sectors. Mr John Griffith-Jones, London managing partner of KPMG Corporate Finance, sums up: "Every building, every company has a history."

Property companies may be asset-based but the factors which give those assets value differ from asset to asset and are far from transparent. Details of the lease, environmental problems, relations with local authorities over planning permission, tax liabilities; all have a powerful impact on value. They are all unknown to the hostile bidder. He is buying the proverbial pig in a poke. These factors, says Mr



Griffith-Jones: 'Every building, every company has a history'

Griffith-Jones, make takeovers unlikely unless they are actively promoted by the institutions which hold the bulk of the shares not controlled by managers. "They could mop up the sector," says Mr Griffith-Jones, "but there are no signs of them doing so."

Some would disagree. Rag-

lan is one of the smaller property companies, with a market capitalisation of little more than £40m. It is in a hurry to grow but until now has been frustrated by the institutions' unwillingness to become involved in property company mergers. Market gossip suggests that Raglan may have had to abort more than one takeover attempt because an institution declined to activate its controlling stake.

Now, however, Raglan believes it can detect a slight crack in institutional attitudes. "In our most recent discussions with institutions we have found they are at least prepared to listen to our plans for acquisitions," says Mr Keith Holman, director of corporate planning. He is one of those concerned at the profligate waste of resources in the sector. He thinks that to maximise productivity in the sector, the number of property companies needs to shrink from 130 to about 30. "I'm not saying the institutions

will try to bring about this degree of consolidation - I doubt it. But I believe they are beginning to see the need for some rationalisation," he says.

Mr Holman may be accurate in forecasting a sea change in institutional attitudes. There is at least one visible reason why they might be prepared to accept cash bids for their property shares: for the first time in many years, most are standing at a premium to NAV.

For some, that is not much consolation; their shares were bought in happier times when asset values were much higher. But the long bull market in shares, which has spilled over even into the property sector, driving share prices to a premium rather than their traditional historic discount, takes away some of the pain.

Even if the institutions fail to swing behind hostile bidders in pursuit of a programme of rationalisation, it may just be possible to create an appetite for agreed

takeovers. Again, Mr Holman believes the company has hit upon the germ of an idea: "One reason why property entrepreneurs refuse to agree takeover terms is that they do not want to be cut off from their developments. If we can find a way to give them a continuing interest they may feel able to accept a reasonable offer."

He believes share options may open the door to agreed takeovers. As they increased in value the original entrepreneur would feel he was being justly rewarded for his early efforts.

Another solution might be more direct: to leave the original management with a core portfolio of properties which they could either sell on at a profit or use as the basis of a new development company.

Clearly, both ideas would need to be tailored to fit the principles of takeover regulation, but they could help to break the logjam in the sector and lead to much-needed rationalisation.

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INTERNATIONAL CAPITAL MARKETS

Signs of restlessness over US rates

GOVERNMENT BONDS

By Edward Luce in London and Lisa Branstetter in New York

European and US markets showed signs of increasing restlessness yesterday, with many traders focusing on the consequences of a possible US interest rate rise at next week's Federal Reserve Open Market Committee meeting in New York.

Spreads on Italian and Swedish cash bonds again widened over equivalent German bonds while Spanish bonds retrieved some of the losses seen this week.

German bunds also regained some ground, partly as a result of the closure of the first quarter 10-year bond auctions bringing tighter supply.

German five-year bund auctions take place at the

end of February. German bund futures rose by 0.19 to close at 101.22.

"The markets haven't yet priced in German bunds the possible effect on German interest rates of recent shifts in expectations towards US interest rates and the appreciation of the dollar," said Mr Andrew Bevan, senior bond economist at Goldman Sachs in London.

"The market has not really taken notice of the beneficial effect the weaker D-Mark will have on the German economy," he said.

Ten-year French bonds also regained lost ground after the Bank of France trimmed intervention rates by 5 basis points to 3.10 per cent - just 10 basis points above German repo rates.

Economists said the recent strength of the French franc would probably result in a

similar 5 basis point cut in the near future. French 10-year bonds closed up 0.30 at 120.54 on Monday.

Both Italian and Swedish bonds continued their recent slide on worries about the strength of the convergence process.

Statements by the Swedish government denying it was planning to loosen fiscal policy significantly in the wake of concern over recent indications it was planning to boost social spending in 1998 failed to halt the slide.

Ten-year Swedish bonds tightened by 2 basis points to 101 points over equivalent German bunds.

"Sweden has reduced its budget deficit from over 2.5 per cent of GDP in 1993 to 2.5 per cent in 1996 at no doubt the cost of some social pain," said Mr David Brown, chief European economist at Bear Stearns in London.

"Any signs that it is planning to relax that tightening are taken as a sign by the foreign markets," he said.

Italian BTP March futures closed 0.35 lower at 131.47 after having lost a point on Wednesday. BTP spreads on the November cash bonds widened slightly to 149 basis points over bunds.

Spanish bono futures closed 0.19 up at 113.63 in Madrid. Spanish markets closed too late to respond to statements from the meeting between Mr José María Aznar, prime minister of Spain, and Chancellor Helmut Kohl of Germany.

"Mr Kohl's endorsement of Spain's aspirations to join the Euro in the first round was less than ringing," said Mr Brown. "It probably won't boost bonos much in trading today."

Long UK gilts rose $\frac{1}{8}$ to close at 110 $\frac{1}{8}$ on Life.

Easing fears about inflationary pressures and a rise in the number of people filing first time claims for unemployment benefits helped US Treasury firm in morning trading.

Bonds began the morning firmer and then rose further after the Labor Department said new unemployment claims rose by 10,000 last week, when economists had expected a modest decline.

But Treasury quickly fell off the highest levels of the session. Near midday, the benchmark 30-year bond was $\frac{1}{8}$ stronger at 95 to yield 6.891 per cent.

At a short end of the maturity spectrum, the two-year note had risen $\frac{1}{8}$ to 98 $\frac{1}{8}$, yielding 6.010 per cent. The March 30-year bond contract rose $\frac{1}{8}$ to 109 $\frac{1}{8}$.

Mr John Spinello, government securities strategist at Merrill Lynch, said some

investors seemed to be using market gains as selling opportunities. On Wednesday, bonds also jumped after strong demand was shown at the first auction of inflation-linked bonds, before falling back.

One factor weighing on the market is next week's meeting of the Federal Reserve's open market committee.

Few economists believe the FOMC will tighten monetary policy, but many believe the Fed will increase rates at some point this year.

The continued strength of the dollar appeared to lend some support to the market yesterday as it rose to DML6550 against the D-Mark from DML6434 late on Wednesday.

Meanwhile, it held generally steady against the yen, changing hands at Y121.55 compared with Y121.80.

CAPITAL MARKETS DIGEST

Mexico may call in Aztec bonds

The Mexican government is considering calling in more than \$2bn in Brady-style Aztec bonds when the bonds' coupon is paid on March 30. Now that Mexico has paid off all the \$1.5bn it borrowed from the United States Treasury at the height of the peso crisis of 1994-95, the administration's attention is turning to refinancing its remaining high-margin debt.

The Aztecs are expensive because US Treasury zero-coupon bond collateral represents almost half their total value, effectively doubling the margins on the bonds. In recent months, the price of the bonds has moved close to par, in anticipation of a possible call. "It would be very advantageous to the Mexican government to refinance the Aztecs with a new issue," said Mr Richard Segal, head of emerging markets fixed-income research at Santander Investment in New York.

"To call the Aztecs would be an attractive operation, as long as we do not have a better use for the resources it would take," said Mr Carlos Mendosa, the Mexican finance ministry's director of public credit, who said a final decision had not yet been made. "But we do not just have the option of a one-off operation (to call the bonds when the bi-annual coupon is paid). We could purchase the Aztecs on the market as well."

Daniel Dombey, Mexico City

Portuguese bond index

J.P. Morgan is to launch a Portugal Government Bond index, reflecting growing interest in a market where foreign ownership of government debt has risen dramatically over the past year. Mr Kurt F. Viernitz, vice-chairman, said the index, due to be added to J.P. Morgan's group of 18 government bond indices within two months, would be based on daily bond pricing data supplied by Banco Espírito Santo, one of Portugal's leading financial groups.

Foreign ownership of Portuguese government debt jumped from only \$31.5bn in 1995 to \$85.5bn (\$4bn) last year as a result of the growing liquidity and maturity of the country's bond market. Since 1993, Portugal has introduced regular auctions of 10-year securities, over-the-counter trading and a derivatives market offering bond futures. Government officials expect the inclusion of Portugal in the J.P. Morgan family of indices, the most widely used performance indicators for government bond markets, to lead to a further substantial increase in foreign portfolio investment.

Peter Wise, Lisbon

Five-year gilts in demand

The Bank of England's gilt auction yesterday saw heavy demand for the five-year stock, with nearly four times the total of £1.5bn being bid. The auction was covered 3.83 times, with no yield fall or price fall - meaning the lowest yield and price bid were equal to the average yield and price bid - for the gilt, maturing in 2002 and paying a seven per cent coupon.

Richard Adams, London

DSL taps institutional investors for \$500m

INTERNATIONAL BONDS

By Samer Iskandar

Issuance settled into a slower pace yesterday, after three weeks of hectic activity. DSL launched the largest deal, \$500m of five-year

"DSL wanted to tap a new base of institutional investors," said Nomura, joint lead manager with Merrill Lynch. "A large size was necessary to distinguish the issue from smaller, retail-targeted deals."

Nomura said it believed this aim had been achieved, with central banks and governmental institutions buying almost half the total.

It also pointed to the deal's widespread geographical dis-

tribution. More 55 per cent of the bonds were sold in Asia; UK investors took up 22 per cent, continental Europe 13 per cent, with the remaining 8 per cent going to the Middle East.

Daiva Europa offered investors DM100m of repayable Turkish bonds.

The underlying securities are so-called Samurai bonds - issued by foreign borrowers in the Japanese domestic market. A pricing anomaly in Japan allowed Daiva to set the coupon at 8 per cent, which offered investors a yield pick-up of 35 basis points over German bunds maturing in 2003.

On Wednesday, Turkey issued five-year bonds denominated in D-Marks, with a yield spread of 275 basis points.

The proceeds, which qualify as Lower Tier II capital, will strengthen the group's capital and help to fund its expansion strategy. In

"There was a mismatch between the risk premium in Japan and that in Germany," Daiva explained. Because the Samurai bonds were cheaper than the euro-market paper, it was possible to swap yen-denominated cash flows into D-Marks at a relatively high yield.

Grupo Bipor, a medium-sized Italian financial company, issued £200m of bonds convertible into ordinary shares. The initial transaction was set at £100m, but was later increased as part of a "greenshoe" - an option to increase the amount to fulfil extra demand.

The proceeds, which qualify as Lower Tier II capital, will strengthen the group's capital and help to fund its expansion strategy. In

November last year Bipor acquired 50 bank branches from Banco di Napoli.

In sterling, the International Finance Corporation

New international bond issues

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book-runner
DSL (US \$)	500	6.50	98.72F	Feb 2002	0.25F	+116(bps)-02	Merrill Lynch/Nomura
DSL (US \$)	150	6.50	98.88F	Feb 2002	0.25F	+116(bps)-02	Merrill Lynch/Nomura
Daiva Europa	100	6.38	98.88F	Feb 2000	0.18F	+156(bps)-09	JP Morgan
Daiva Europa	100	2.50	100.00	Feb 2001	2.50		JP Morgan
Turkish Sav Repack Notes	100	8.50	99.95F	Jun 2003	2.25F	355(bps)-03	Daiva Europa
LW Rentenbank	100	5.13	99.13F	Mar 2007	0.39F		Morgan Stanley (Zurich)
IFC	250	6.34	99.10	Feb 2000	0.20		Yamachi Ltd (Europe)
IFC	400	5.25	101.83	Dec 2004	2.00		Kreditbank
IFC	220bn	7.00	100.00	Jan 2003	2.50		Morgan Stanley
IFC	140n	7.25	100.00	Feb 2007	0.35		Banco Santander de Neg
IFC	100	7.13	101.11	Mar 2002	2.00		Hambro
IFC	100	7.00	101.44	Mar 2002	2.00		ABN Amro Hoare Govett

Final terms: 1) 100% of the amount of the bond (or less) to be issued by the issuer. 2) 100% of the amount of the bond (or less) to be issued by the issuer. 3) 100% of the amount of the bond (or less) to be issued by the issuer. 4) 100% of the amount of the bond (or less) to be issued by the issuer. 5) 100% of the amount of the bond (or less) to be issued by the issuer. 6) 100% of the amount of the bond (or less) to be issued by the issuer. 7) 100% of the amount of the bond (or less) to be issued by the issuer. 8) 100% of the amount of the bond (or less) to be issued by the issuer. 9) 100% of the amount of the bond (or less) to be issued by the issuer. 10) 100% of the amount of the bond (or less) to be issued by the issuer. 11) 100% of the amount of the bond (or less) to be issued by the issuer. 12) 100% of the amount of the bond (or less) to be issued by the issuer. 13) 100% of the amount of the bond (or less) to be issued by the issuer. 14) 100% of the amount of the bond (or less) to 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Sterling plummets as US dollar weakens

MARKETS REPORT

By Graham Bowley

The pound dropped sharply in late trading on the foreign exchange market, reuniting speculation that the UK currency's recent period of strength may have come to an end.

The pound's drop followed sharp falls last week as traders continued to take the view that a UK interest rate rise was unlikely before the general election.

But analysts were puzzled by the pound's latest decline yesterday. They linked it to uncertainty about the approaching UK election, which must take place by May, to selling by US investment funds and to the weakness in the dollar. They said reports that Japanese companies' inward investment strategies might change if Britain stayed out of European monetary union could also have unsettled foreign holders of the pound.

The dollar weakened after comments by Mr Eisuke Sakakibara, an official at the Japanese finance ministry, were interpreted as indicating that Japan might intervene soon to halt the yen's recent decline against the US currency.

The D-Mark recorded slight gains against other European currencies on the back of the dollar's decline. The Italian Lira, however, remained stable after volatility in recent sessions.

The French franc weakened after the Bank of France cut its intervention rate unexpectedly to 3.10 per cent from 3.15 per cent.

Analysts said the reduction might signal a softer stance on monetary policy by the central bank. But Mr Jean-Claude Tricou, governor of the Bank of France, said the Bank had no plans at this stage to change rates again any time soon.

Sterling edged London trading at DM2.848, down more than 1 pence on the previous close. But it dropped another pence and a half to DM2.63 in later trading.

Against the dollar, it ended at \$1.6145, down almost half a cent, before dropping to \$1.607.

On a trade-weighted basis, the pound slipped from 85.6 to 85.2.

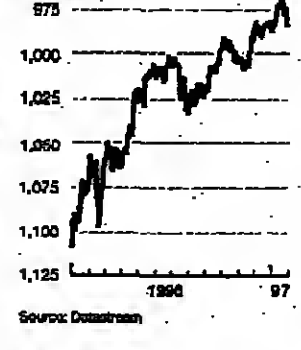
The Thai baht came under renewed pressure amid rumours that it might be devalued. The currency has been dropping against the US dollar since late last year.

The pound's sudden fall surprised currency analysts yesterday. "I do not think it is justified that sterling should have fallen so fast," said Mr

Lira

Against the D-Mark

(vs per DM)



Source: Reuters

despite the currency's recent set-backs technical factors suggest it still has support.

"It has not done what it has in the past when it has neared a peak, which suggests that so far we have not seen the highs," he said.

The UK's National Institute of Economic and Social Research enters the UK interest rate debate today.

It warns in its latest quarterly review that the strong pound is doing a lot of damage to the UK economy, making an interest rate rise unnecessary. It predicts that the government will have to raise taxes as slower growth hits tax revenues.

Comments by Mr Sakakibara were the main trigger for the dollar's decline yesterday, analysts said.

His comments coincided with remarks by Mr Robert Rubin, US treasury secretary, who repeated US policy that a strong dollar was in the interests of the US.

Mr Norfield said currency markets were becoming increasingly nervous.

"There is a fear of policy moves. Markets do not have a great deal of confidence with the levels we have reached," he said.

Attention is now turning to the G7 summit in Berlin at the end of next week.

Mr Mark Cliffe, international economist at HSBC Markets in London, said: "The backdrop to this summer is very different to last year's. There are signs that the dollar is slipping out of control. Last year, policy-makers were broadly happy with the dollar's gradual appreciation. But now there are increasing signs of tension between Germany, the US and Japan."

Other currencies

Jan 30 £ \$

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COMMODITIES AND AGRICULTURE

Farmers are planting less because the state has failed to pay them in the past

Serbia seen to need large wheat imports

By Guy Dinmore in Belgrade

Serbia, normally a grain exporter, will have to import large amounts of wheat this year, independent analysts said yesterday.

They point out that the effects of a disastrous 1996 harvest have been exacerbated by the excessive sales of reserves by the socialist government, desperate to raise much-needed hard currency.

Estimates of Serbia's shortfall before next July's harvest range from 300,000 to 600,000 tonnes. Professor Madjan Dinkic, professor of economics at Belgrade University, said many farmers have produced only enough grain for their own needs because the state had failed to pay them adequately for past harvests.

"They are unlikely to protest against the government but they will not plant," said Professor Dinkic, adding that Serbia's virtually bankrupt economy relies heavily

on its traditionally strong agricultural base for survival.

Mr Dragan Veselinovic, the leader of the opposition National Farmers party, which has its strongest base in the northern province of Vojvodina, estimated last year's wheat harvest at 1.5m tonnes, well below the usual 3.5m tonnes. Cattle breeding had also more than halved because of the government's failure to pay farmers.

Official figures for last year's wheat harvest or sales from reserves have not been published but Mr Veselinovic estimated that 300,000 tonnes had been sold and Serbia would have to buy back at least 400,000 tonnes - and at greater cost because world prices had since risen.

An independent analyst said Serbia was believed to have sold 700,000 tonnes of wheat in the year to July 1996. He forecast a 1997 harvest of around 2.5m tonnes and further imports of 300,000 tonnes after pur-



On the bread line: opposition politicians say some farmers are "so poor they can't even buy a round of drinks in a cafe"

chases already made of less than 100,000 tonnes.

The state has a monopoly on strategic agricultural products and grain export licences.

"Some farmers are so poor they can't even buy a round of drinks in a cafe," Mr Veselinovic complained. A coalition of opposition groups in Vojvodina, Serbia's grain basket, this week launched a campaign to restore the province's auton-

omy which Mr Milosevic cancelled in 1989 in a bid to centralise power in Belgrade. Serbs make up more than 50 per cent of Vojvodina's 2.1m people but the province also has large numbers of Hungarians, Croats, Slovaks and other ethnic groups.

Small groups of angry farmers are blockading some roads in Vojvodina but analysts doubt the opposition will persuade the conserva-

tive farming community to mount a wider blockade of the capital.

What is more certain is that Mr Milosevic will dig deeper into foreign bank accounts to buy wheat to keep bread in the shops. "The government would rather import wheat than provoke riots," Mr Veselinovic said.

Robert Corzine, London

COMMODITIES DIGEST

IPE offers first natural gas future

Europe's first natural gas futures contract will be launched today by London's International Petroleum Exchange. The contract will be based on the delivery of gas at the "national balancing point", a national location at which British Gas's Transco pipeline monopoly carries out the daily balancing of supply and demand.

The rules governing the phased liberalisation of the UK gas market require companies using the Transco system to match the amount of gas they put into the pipeline each day with that used by their customers.

An informal spot market in gas has evolved over recent years, but the IPE says its contract will have a number of advantages over the present system. These include transparent pricing, no barriers to entry, trader anonymity, a standard mechanism for delivering gas within the Transco system and centrally cleared and margined contracts.

The IPE hopes the natural gas contract, which will trade up to 12 months forward, will evolve into a European price benchmark. In the same way that its Brent oil futures contract serves as a price marker for the international petroleum industry. That could happen as early as October 1998, the expected completion date for the UK-Continent Gas Interconnector between Bacton on the east coast of England and Zeebrugge in Belgium. Completion of the pipeline will give Europe an integrated gas grid similar to that in North America.

Robert Corzine, London

US venture for Asarco

Asarco, the large US mining house which sold its AS414m (US\$319m) stake in Queensland's MIM Holdings last year, yesterday made a return to Australia, announcing it had reached a joint venture and farm-in agreement with Zanex, a junior miner, over its Yamarna gold prospect near Laverton, in Western Australia.

Asarco will be able to earn a 51 per cent interest in the project by completing A\$3.5m of exploration expenditure over a 46-month period. It can then acquire a further 1 per cent for every A\$100,000 spent (with Zanex retaining the right to contribute at certain levels), and will also be deemed to have acquired Zanex's holding in the Dorothy Hills tenement, subject to a smelter royalty. Asarco will also have an option to buy an 80 per cent interest in the Yamarna tenements outright for A\$16m.

Although relatively modest, the deal reinforces the trend for larger North American miners to step up their involvement in WA gold prospects.

Nikki Tait

World cocoa deficit grows

The world cocoa production deficit in the 1996-97 season should be between 170,000 and 230,000 tonnes due to strong consumption and an estimated decline in output, traders ED&F Man said yesterday. It said the exceptionally favourable weather conditions in West Africa last season, which helped to push stocks to nearly 1.2m tonnes, appeared to be absent this year.

Man forecast that output from the top grower, Ivory Coast, would be around 1.65m tonnes for the season, which runs from October to September, against an estimated 1.2m tonnes in 1995-96.

Reuter, London

Copper falls as technical squeeze unwinds

MARKETS REPORT

By Kenneth Gooding, Robert Corzine and Maggie Urry

The price of copper for immediate delivery fell more than 4 per cent on the London Metal Exchange for the second day running, as the technical squeeze that has gripped the market for some weeks continued to unwind. Copper was down \$106 to \$2,354 a tonne.

Traders said the falling premium for copper for immediate delivery compared with three-month metal - down by \$50 a tonne to \$200 yesterday - had encouraged mer-

chants and consumers to hurry to lend to the market copper they did not need until a future date.

The big premium was expected to have attracted much more copper to LME warehouses and traders suggested the exchange would report a rise in stocks of 10,000 to 15,000 tonnes today.

Gold fell to a 34-year low following a fresh wave of selling by US funds and producers. Gold's price was "fixed" in London yesterday afternoon at \$349.30 a troy ounce, down from \$351.10 at Wednesday's afternoon "fix". In late London trading it fell to \$345.75. Dealers pointed out that the last

time gold traded at this level it quickly fell to \$349.30.

Coffee prices slipped yesterday in continued volatile trading after Wednesday's strong rise. Prices have risen sharply in recent months, attracting buying from investment funds while deterring selling by producers, keen to hold on for yet higher prices.

Traders said the fundamental supply shortage of coffee had been exacerbated by estimates of a lower crop from Brazil this year. Consumer stocks had fallen, encouraging some buying by roasters, they reported. They suggested investment

funds' long positions could overhang the market. "The bubble will have to burst one day," one observer said. If they were liquidated it would "put the market under pressure" and might bring out sales from producers too.

Crude oil prices continued to firm, with Brent Blend for March delivery breaking through the \$23 barrier after several weeks of steady decline.

March Brent was quoted at \$23.04 a barrel in late London trading, 27 cents up on Wednesday's close. It had fallen to a four-month low of \$22 a barrel on Monday. The factors that helped to

reverse the oil price direction on Wednesday were still at work in the market, said traders. These included forecasts of cold weather in the US when heating oil stocks were falling and renewed concerns about the stability of Iraq, although Mr Kofi Annan, the United Nations secretary general, said he thought the current oil-for-food programme would probably be renewed for a further six months.

Gas oil futures on London's International Petroleum Exchange rose sharply in response to higher heating oil prices on Nymex in the US. February gas oil was up \$7.75 a tonne to \$212.55.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Antwerp Metal Trading)

■ ALUMINIUM, 99.7 PURITY (\$ per tonne)

	Cash	3 mths
Close	1584.8-65.2	1608-10
Previous	1580.5-61.2	1606-07
High/Low	1583/1592	1611/1605
AM Official	1583-84	1617-17.5
Kerb close		1614-15

Open Int. 248,441
Total daily turnover 57,432

■ ALUMINIUM ALLOY (\$ per tonne)

	Close
1500-05	1520-21
Previous	1489-90
High/Low	1523/1512
AM Official	1520-21
Kerb close	1520-25

Open Int. 5,013
Total daily turnover 1,223

■ LEAD (\$ per tonne)

	Close
65-7	655-7
Previous	654-55
High/Low	657-58
AM Official	662-3
Kerb close	673-4

Open Int. 35,277
Total daily turnover 11,303

■ NICKEL (\$ per tonne)

	Close
7130-200	7290-300
Previous	7050-55
AM Official	7300/7180
Kerb close	7240-45
Open Int.	7295-300

Open Int. 48,844
Total daily turnover 12,763

■ TIN (\$ per tonne)

	Close
5700-10	5765-75
Previous	5740-45
High/Low	5800-905
AM Official	5825/5790
Kerb close	5720-25

Open Int. 15,500
Total daily turnover 6,057

■ ZINC, special high grade (\$ per tonne)

	Close
1102-03	1125-26
Previous	1088-5-85.5
High/Low	1104
AM Official	1125-04
Kerb close	1135-36

Open Int. 90,330
Total daily turnover 23,085

■ COPPER, grade A (\$ per tonne)

	Close
2349-54	2149-50
Previous	2450-50
High/Low	2485/2385
AM Official	2387-88
Kerb close	2177-78

Open Int. 150,709
Total daily turnover 78,415

■ LME AM Official 5% rate 1.8216

LME Closing 5% rate 1.8143
Apr. 1.8055 3 mths 1.8085 6 mths 1.8042 9 mths 1.8014

■ HIGH GRADE COPPER (COMEX)

	Sett. Day's
price change	High Low Vol Int
Feb	102.40 -1.30 103.80 101.80 753 2,946
Mar	101.20 -1.20 102.70 100.40 14,864 24,125
Apr	99.80 -1.20 101.10 99.40 34 1,282
May	98.80 -1.20 100.10 98.10 1,374 4,851
Jun	96.40 -1.20 98.45 96.20 12 778
Jul	97.80 -1.20 98.60 97.20 120 4,897
Total	18,271 32,416

PRECIOUS METALS

■ LONDON GOLD MARKET
(Prices supplied by N.M. Rothschild)

	Close
Gold (Troy oz)	347.00-347.20
Opening	346.50-346.80
Morning fix	346.20
Afternoon fix	346.25
Day's High	346.80-346.80
Day's Low	346.30-346.50
Previous close	345.50-345.50

Loco Ldn Mean Gold Landings Rate (No US\$)
1 month 3.42 6 months 3.47 12 months 3.50

■ SILVER (\$ per ounce)

	Close
Spot	301.10
3 months	295.20
6 months	298.40
1 year	316.00
Gold Ounces	\$ price
Krugman	385-389
Macleod	227-229
New Sovereign	83-88

Precious Metals continued

■ GOLD COMEX (100 Troy oz; \$/troy oz)

	Sett. Day's
price change	High Low Vol Int
Feb	346.2 -5.8 351.8 348.0 26,550 21,182
Mar	347.5 -5.7 353.0 347.5 35,998 77,230
Apr	346.7 -5.7 351.0 346.5 1,200 25,488
May	345.9 -5.5 350.5 345.0 586 4,471
Jun	344.4 -5.6 349.0 344.5 42 3,775
Jul	338.8 -5.9 343.0 337.1 657 16,530
Total	67,055 184,476

■ PLATINUM NYMEX 50 Troy oz; \$/troy oz

	Sett. Day's
price change	High Low Vol Int
Apr	355.4 -3.4 358.2 353.0 1,441 20,261
May	357.8 -3.5 360.5 355.2 71 3,290
Jun	360.0 -3.5 363.0 358.0 38 2,270
Jul	362.2 -3.5 - - - 1,077 26,800
Total	1,577 26,800

■ PALLADIUM NYMEX 100 Troy oz; \$/troy oz

	Sett. Day's
price change	High Low Vol Int
Mar	121.75 -0.85 121.60 123.90 288 6,101
Apr	123.00 -0.85 - - - 1,865
May	123.20 -0.85 - - - 389
Jun	127.20 -0.85 128.10 128.10 - - 16
Total	290 8,344

■ SILVER COMEX (5,000 Troy oz; \$/troy oz)

	Sett. Day's
price change	High Low Vol Int
Feb	483.5 +1.5 - - - 5 2
Mar	493.5 +1.5 497.5 496.0 15,105 57,380
Apr	500.1 +1.5 501.0 491.0 634 11,432
May	504.7 +1.5 505.5 495.0 382 8,520
Jun	508.4 +1.5 509.0 502.5 8 3,001
Jul	516.8 +1.5 516.5 508.0 14 4,684
Total	16,781 85,297

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels; \$/barrel)

	Sett. Day's
price change	High Low Vol Int
Mar	24.88 -0.21 24.71 24.31 35,325 81,559
Apr	24.15 -0.22 24.15 23.89 14,108 38,492
May	23.81 -0.19 23.81 23.40 3,284 23,697
Jun	23.14 -0.18 23.15 22.82 3,078 32,657
Jul	22.70 -0.12 22.70 22.33 781 15,425
Aug	22.32 -0.08 22.33 22.22 724 14,344
Total	70,988 350,298

■ CRUDE OIL IPE (\$/barrel)

	Sett. Day's
price change	High Low Vol Int
Mar	23.02 -0.25 22.84 22.75 15,414 60,495
Apr	22.54 -0.24 22.54 22.29 5,850 35,085
May	22.03 -0.14 22.04 21.85 2,867 17,318
Jun	21.56 -0.08 21.60 21.43 1,716 18,014
Jul	21.14 -0.01 21.20 21.12 413 12,027
Aug	20.82 - - - - - 3,187
Total	28,387 140,947

■ HEATING OIL NYMEX (10,000 US gal; \$/US gal)

	Sett. Day's
price change	High Low Vol Int
Mar	70.30 +1.46 70.40 68.70 19,059 15,159
Apr	67.85 +0.78 67.90 66.90 16,563 31,038
May	64.75 +0.43 64.75 64.20 4,110 14,285
Jun	61.80 +0.23 61.80 61.55 1,519 5,627
Jul	60.15 +0.13 60.20 59.85 1,137 6,393
Aug	59.50 +0.10 59.50 59.25 228 3,288
Total	43,982 85,291

■ GAS OIL IPE (\$/barrel)

	Sett. Day's
price change	High Low Vol Int
Feb	21.00 -0.25 20.84 20.75 15,414 60,495
Mar	20.54 -0.24 20.54 20.29 5,850 35,085
Apr	20.03 -0.14 20.04 19.85 2,867 17,318
May	19.56 -0.08 19.60 19.43 1,716 18,014
Jun	19.14 -0.01 19.20 19.12 413 12,027
Aug	20.82 - - - - - 3,187
Total	28,387 140,947

■ NATURAL GAS NYMEX (10,000 cu ft; \$/cu ft)

	Sett. Day's
price change	High Low Vol Int
Mar	2.450 +0.012 2.465 2.400 11,748 37,732
Apr	2.175 +0.019 2.195 2.140 211 16,374
May	2.075 +0.016 2.090 2.040 3,651 12,086
Jun	2.050 - - - - - 1,980 6,603
Jul	2.085 - - - - - 2,085 1,211 6,877
Aug	2.075 - - - - - 2,075 7,792
Total	26,714 146,616

■ UNLEADED GASOLINE NYMEX (42,000 US gal; \$/US gal)

	Sett. Day's
price change	High Low Vol Int
Feb	68.30 +1.07 68.30 68.20 10,862 10,215
Mar	68.25 +1.04 68.40 68.20 11,820 29,545
Apr	70.65 +0.70 70.65 68.95 2,567 11,801
May	70.20 +0.73 70.20 69.50 751 6,751
Jun	68.85 +0.65 68.85 68.30 447 5,675
Jul	68.90 +0.45 68.90 68.50 128 2,530
Total	27,382 73,128

GRAINS AND OIL SEEDS

■ WHEAT LFFE (\$ per tonne)

	Sett. Day's
price change	High Low Vol Int
Mar	82.70 -0.05 82.70 82.00 164 1,677
Apr	86.00 +0.10 86.20 85.40 118 2,968
May	84.50 +0.20 84.50 83.70 146 4,070
Jun	81.75 - - - - - 17
Jul	81.75 - - - - - 61 88
Aug	85.75 - - - - - 23 747
Total	643 8,477

■ WHEAT CBT (\$/cwt; 60,000 bushels)

	Sett. Day's
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FT MANAGED FUNDS SERVICE

Year	Population	Population	Population
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GUIDE TO

Prices for the London
Financial Times in
Company classifications
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A Standard Chartered Group company

Symbolic offerings daily as a guide covers are published. Market capitalization stock quoted. Earnings used in calculation. Price/earnings ratio accounts and, where possible, yield. Yields are based on credit of 20 percent and rights. Estimated Net Assets per share premium (P/A) assumes prior share warrants exercised.

- Highs and lows capital change inform since
- Interim since figures or reported
- Revenue 1.0000 approved since
- From annual/Price 4.2000
- Ratio at time indicated since
- Merger bid or Forecast since
- Latest interim Unregulated since

* Valid based on

1 Speculated dividend
yield (based on
prospective or other
official estimates).

2 Assumed dividend
yield after rights issue.

3 Assumed dividend
yield after scrip issue.

4 Rights based premium
to Earnings based on
prospective figures.

5 Dividend yield
includes a special
payment.

6 Implied dividend
yield, see ratio based
implied annual earnings
in Footnote, or estimate
based on prospective
figures.

7 Dividend yield
based on
prospective year's earnings.

8 Dividend yield in-
cludes a special payment.

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LONDON STOCK EXCHANGE

Shares respond to good showing by gilts

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

Another successful gilts auction, and the 84-point jump overnight by the Dow Jones Industrial Average, injected a much-needed burst of confidence into London shares yesterday.

Some of the market's more optimistic dealers said Wall Street was set for further big gains and that pockets of selling pressure represented no more than profit-taking.

Others, however, remained set on the idea that the recent rise in the US stock market

would result in a correction sooner rather than later.

There was precious little evidence yesterday that another US sell-off was imminent; the Dow was up 25 points as trading in London ended.

That performance followed comforting comments on inflation by Mr Alan Greenspan, chairman of the US Federal Reserve.

The main FTSE indices, taking their cue from the Dow's overnight gain, made determined progress ending the session at or around the day's closing highs.

The FTSE 100 index pushed up 20.9 to 4,228.4, recapturing much of the previous day's US-inspired

slide. The FTSE 250, meanwhile, rose 6.1 to 4,572.6. The SmallCap posted the most impressive gain, adding 5.4 at 2,297.6.

Adding to the growing pressure on stockbrokers was another low-key trading session; turnover in equities at the 6pm count was 802m shares.

Official figures from the stock exchange yesterday revealed that customer, or strictly retail, business was worth £791.5m on Wednesday, slightly up on levels earlier in the week but well down on usual levels of business.

Footsie began the day in good heart, responding to the rise in the Dow and a firm showing by Treasury bonds, which ended

well ahead after the first auction of inflation-linked issues.

And with the auction of £1.5bn worth of five-year gilts covered 3.8 times, there was further encouragement for equities.

The recent spate of profits warnings, triggered mostly by the strong rise in sterling over the past few months, showed no signs of abating. Premier Farnell shares, hammered during the last couple of minutes trading on Wednesday, were given a further

boost yesterday. And another engineering group, Staveley Industries, kept up the pressure among the engineering stocks.

On the other side of the coin, the market enjoyed a sprinkling

of good performances. Oil exploration shares continued to gallop

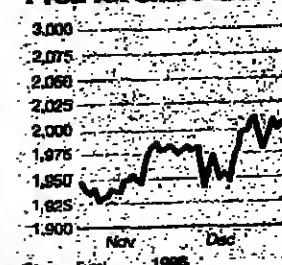
ahead, with a firm showing by crude oil prices accompanied by excellent exploration news. British Petroleum, the market's star performer since last December, continued its upward spiral after the company's executives addressed

London analysts. And Enterprise Oil topped the FTSE 100 performance list following more good drilling news.

Today brings a long list of economic news from the US, most notably gross domestic product for the fourth quarter, inflation news, new home sales for December and the Chicago Purchasing

Managers index for January.

FTSE All-Share Index



Source: Data Stream

Indices and ratios

FTSE 100	4228.4	+20.9
FTSE 250	4572.6	+6.1
FTSE 350	2094.7	+5.7
FTSE All-Share	2088.18	+8.34
FTSE All-Share yield	3.56	3.57

Best performing sectors

1 Oil Exploration & Prod	+2.9
2 Pharmaceuticals	+2.9
3 Water	+1.6
4 Electricity	+1.2
5 Insurance	+1.2

Equities: shares advanced



Source: Data Stream

Indices and ratios

FTSE 100	4228.4	+20.9
FTSE 250	4572.6	+6.1
FTSE 350	2094.7	+5.7
FTSE All-Share	2088.18	+8.34
FTSE All-Share yield	3.56	3.57

Best performing sectors

1 Oil Exploration & Prod	+2.9
2 Pharmaceuticals	+2.9
3 Water	+1.6
4 Electricity	+1.2
5 Insurance	+1.2

Worst performing sectors

1 Distributions	-2.5
2 Extractive Industries	-1.0
3 Gas Distribution	-0.7
4 Paper, Print & Pk	-0.7
5 Building Materials	-0.8

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LFFB) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int
Mar	4228.0	4228.0	+15.0	4238.0	4208.0	11038	6148
Jun	4228.0	4228.0	+15.0	4238.0	4208.0	0	4599
Sep	4228.0	4228.0	+15.0	4238.0	4208.0	0	1396

■ FTSE 250 INDEX FUTURES (LFFB) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int
Mar	4620.0	4620.0	+6.0	4620.0	4620.0	10	5761

■ FTSE 100 INDEX OPTION (LFFB) (£225) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int
Mar	4228.0	4228.0	+15.0	4238.0	4208.0	11038	6148

■ EURO STYLE FTSE 100 INDEX OPTION (LFFB) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int
Mar	4228.0	4228.0	+15.0	4238.0	4208.0	11038	6148

LONDON RECENT ISSUES: EQUITIES

Issue	Price	Yield	Div. yield	Div. yield	P/E
BP	174.5	4.2	4.2	4.2	12.7
BT	174.5	4.2	4.2	4.2	12.7
British Airways	174.5	4.2	4.2	4.2	12.7
British Petroleum	174.5	4.2	4.2	4.2	12.7
British Telecom	174.5	4.2	4.2	4.2	12.7
British Water	174.5	4.2	4.2	4.2	12.7
British Airways	174.5	4.2	4.2	4.2	12.7
British Petroleum	174.5	4.2	4.2	4.2	12.7
British Telecom	174.5	4.2	4.2	4.2	12.7
British Water	174.5	4.2	4.2	4.2	12.7

FT GOLD MINES INDEX

Index	Value	Change	High	Low	Open
Gold Mines Index	174.5	4.2	4.2	4.2	12.7

The UK Series

Index	Value	Change	High	Low	Open
UK Series	174.5	4.2	4.2	4.2	12.7

Hourly movements

Index	Value	Change	High	Low	Open
Hourly movements	174.5	4.2	4.2	4.2	12.7

■ FTSE 350 Industry baskets

Index	Value	Change	High	Low	Open
FTSE 350 Industry baskets	174.5	4.2	4.2	4.2	12.7

Borneo tops the £13 mark

By Peter John, Joel Kibazo
and Lisa Wood

Oil exploration and production stocks topped the leading indices on a combination of fundamental appreciation, currency swings and optimism.

The impetus came from a talk by British-Borneo Petroleum to the London Oil Analysts Group on Wednesday night. The company said that, while 1996 had seen the pieces of the jigsaw being put into place, 1997 was the year in which the company moved into high gear - particularly in the Gulf of Mexico.

"Bears of the stock were left gasping for air," said one enthusiastic analyst. Borneo rose 118 to £13.99, a new closing peak.

The sales pitch from Borneo gave a helping hand to Enterprise, which headed the Footsie with a rise of 25 to 679p. Enterprise also has operations in the Gulf of Mexico and announced late on Wednesday that it had made significant advances in southern Italy.

Furthermore, the revival of the US dollar against sterling has meant a significant difference to the revenues of big dollar earners. A nominal oil price of \$20 a barrel translates to £12 at \$1.67 to the pound but 50p more at

\$1.60. Ms Irene Himona of SGST said: "These stocks are running but they're not running on hype alone. I would not wish to be the one to call the top."

There was no end in sight to the flow of bad news surrounding electronic components distributor Premier Farnell, which surprised the market with a profits warning late on Wednesday.

The shares surrendered another 115p to 890p, a near 18 per cent fall and by far the worst retreat in the FTSE 250 yesterday. Turnover was a hefty 9.7m, its highest ever daily total since volume in the stock was first recorded in 1991.

Analysts downgraded profit expectations to around £137m in the wake of the warning, while ABN Amro Hoare Govett and Merrill Lynch were among brokers reported to have advised clients to sell the stock.

Rumours that Bass might be casting an eye over Accor, the French hotel chain, temple of a bout of profit-taking in the stock, which fell 9 to 852p. Analysts were divided as to whether such an acquisition would be either on the cards or desirable. Earlier this week BZW moved the stock from a "buy" to a "hold" on valuation grounds.

Harry Ramsden's advanced 17p to 362p after a good set of full-year results while J Wetherspoon continued to weaken, falling 35 to 110p.

Yorkshire Water rose strongly after the company announced a capital reorganisation and a plan to return

up to 10 per cent of the company to shareholders as cash. The shares, which have been steadily rising for the past three months on expectations of a share buy-back, jumped 17p to 735p.

Royal & Sun Alliance, the insurance group, lifted 13p to 476p after the company said single premium sales rose more than 113 per cent last year.

However, SGST maintained a "hold" recommendation on the stock and, in general, insurers were cautiously traded. A number of life stocks fell back as Credit Lyonnais Laing adopted a more severe stance to insurers as a whole.

Analyst Mr David Hudson advised a switch out of Prudential - down 6p at 537p - into Legal & General, which improved 9p to 379p.

However, the broker was more optimistic about banks. It said the recent gains had not factored in the full extent of the sparkling sector growth announced this week, which was almost double overall GDP growth.

Laing particularly likes Barclays, which rose 3 to 1,142p, and NatWest, which rose 1p to 785p after being restrained earlier by an overhang of stock.

Marks and Spencer recovered, hardening 10 to 482p, in the wake of its trading statement earlier in the week which had been initially greeted by the market with some disappointment, especially over food sales. The market noted that Mrs Stella Rimington, a non-executive director of M&S, had purchased her first stock in the company.

There was some profit-taking in DFS Furniture, which softened 24p to 600p, while analysts struggled to find an explanation

as to why Great Universal Stores had hardened 19 to 643p. There was talk that a broker was just about to publish a big piece of research on the stock, with a possible change in recommendation.

One analyst said the sector had perhaps been oversold, and a number of stocks were relatively cheap, but prices were volatile because of continuing nervousness.

Active profit-taking in mobile phones group Orange left the shares as the worst performer in the FTSE 100. They gave up 5p to 188p, having traded 3.7m by the close.

Morgan Stanley yesterday downgraded its recommendation from "outperform" to "neutral" on a valuation basis, although analyst Mr Paul Marsh remains positive on the sector for the long term.

The broker made the same recommendation on Vodafone Group, which left the shares trading 3p to 269p. Volume was 10m. A two-way pull in BT brought turnover of 8m as the shares eased to 421p.

Among engineering stocks, T&N followed the strong market trend and closed 2 up at 185p. A previously large investor yesterday said it had reduced its holding in the company.

Continued worries over the dividend once again left LucasVarity friendless as the market surged. The shares gave up another 2 to 207p, after heavy trading that brought turnover of 13m.

Metals group Johnson Matthey eased 5 to 570p with ABN Amro Hoare Govett said to have downgraded its current year profit estimate. The broker is believed to have reduced the figure by 45m to £255m.

Notice to Noteholders of
The Export-Import Bank of Korea
U.S.\$100,000,000

Floating Rate Notes due 1997

The Fiscal Agent wishes to advise Noteholders under the captioned issue that redemption notices for payment on the 25th March, 1997 should be lodged with themselves by no later than 17.00 hours (New York time) on the 21st February, 1997.

Redemption notices shall be made in accordance with the Terms and Conditions for the Issue Clause 5(d) - "The Issuer will, at the option of the holder of any Note, redeem such Note on any Interest Payment Date falling in or after September 1997 at its principal amount. To Exercise such option the holder must deposit such Note, together with all Coupons relating to it which mature after the date fixed for redemption, with any Paying Agent together with a duly completed redemption notice in the form obtainable from any of the Paying Agents, not more than 60 nor less than 30 days prior to such date. No Note so deposited may be withdrawn (except as provided for in the Fiscal Agency Agreement) without the prior consent of the Issuer."

Fiscal Agent Contact information:

LTCB Trust Company

165 Broadway, New York, NY 10006, USA

Fax No: +1-212-608-9349 Tel. No: +1-212-335-1899

Attention: of Trust Dept.

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Holders of these securities would be interested to hear from any person or companies who currently hold the above bond in relation to which an Event of Default was apparently committed in August of 1994. Consideration is being given to the formation of a bondholders action group with a view to taking action in the liquidation being conducted in Canada.

If you would like more information without obligation, then please contact the Trustee as soon as possible at the address below.

Michael J Brady

Corporate Trust Officer

Montreal Trust Company of Canada

151 Front Street West

Suite 605

Toronto, Ontario

M5T 2N1

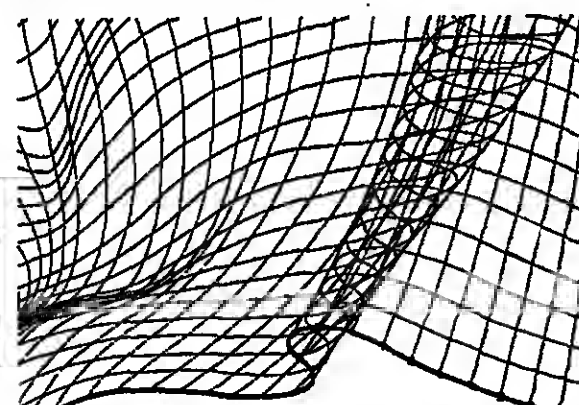
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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (Jan 30 / \$)		High	Low	52W High	52W Low	Vol	Change	%	Open
Austria (Jan 30 / S)									
ATX	1,278.00	1,278.00	1,278.00	1,278.00	1,278.00	1,278.00	1,278.00	1,278.00	1,278.00
Belgium (Jan 30 / F)									
BEX	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00
Denmark (Jan 30 / K)									
OMX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
France (Jan 30 / F)									
CAC	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00
Germany (Jan 30 / D)									
DAX	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00
Greece (Jan 30 / P)									
ASE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Ireland (Jan 30 / P)									
ISEQ	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Italy (Jan 30 / L)									
FTSEM	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Japan (Jan 30 / Y)									
Nikkei	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00
Korea (Jan 30 / W)									
KOSPI	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Netherlands (Jan 30 / F)									
AEX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Norway (Jan 30 / K)									
OSLO	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Portugal (Jan 30 / L)									
BVL	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Spain (Jan 30 / P)									
IBEX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Sweden (Jan 30 / K)									
OMX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Switzerland (Jan 30 / F)									
SIX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Taiwan (Jan 30 / W)									
TSEI	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Thailand (Jan 30 / B)									
SET	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Turkey (Jan 30 / L)									
BIST	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
UK (Jan 30 / F)									
FTSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
USA (Jan 30 / F)									
Dow Jones	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00
South Africa (Jan 30 / F)									
JOSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Australia (Jan 30 / A)									
ASX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
New Zealand (Jan 30 / N)									
NZSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Singapore (Jan 30 / S)									
SEI	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Hong Kong (Jan 30 / F)									
HSI	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
India (Jan 30 / F)									
Sensex	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
China (Jan 30 / F)									
SSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Brazil (Jan 30 / F)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Mexico (Jan 30 / F)									
IPC	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Argentina (Jan 30 / F)									
MERV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Colombia (Jan 30 / F)									
COLCAP	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Peru (Jan 30 / F)									
VLSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Chile (Jan 30 / F)									
IPSA	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Venezuela (Jan 30 / F)									
IPC	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Russia (Jan 30 / F)									
RTS	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Ukraine (Jan 30 / F)									
UKX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Poland (Jan 30 / F)									
GPW	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Czech Rep (Jan 30 / F)									
PRAX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Slovakia (Jan 30 / F)									
STAX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Hungary (Jan 30 / F)									
INDEX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Slovenia (Jan 30 / F)									
VLSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Croatia (Jan 30 / F)									
VLSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Bulgaria (Jan 30 / F)									
VLSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Romania (Jan 30 / F)									
VLSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Latvia (Jan 30 / F)									
VLSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Lithuania (Jan 30 / F)									
VLSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Estonia (Jan 30 / F)									
VLSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Finland (Jan 30 / F)									
HEX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Iceland (Jan 30 / F)									
VLSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Norway (Jan 30 / F)									
OSLO	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Sweden (Jan 30 / F)									
OMX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00

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INDICES		High	Low	52W High	52W Low	Vol	Change	%	Open
Argentina (Jan 30 / F)									
MERVL	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Australia (Jan 30 / A)									
ASX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Austria (Jan 30 / S)									
ATX	1,278.00	1,278.00	1,278.00	1,278.00	1,278.00	1,278.00	1,278.00	1,278.00	1,278.00
Belgium (Jan 30 / F)									
BEX	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00	3,400.00
Brazil (Jan 30 / F)									
IBOV	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Canada (Jan 30 / F)									
TSX	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Chile (Jan 30 / F)									
IPSA	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
China (Jan 30 / F)									
SSE	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Colombia (Jan 30 / F)									
COLCAP	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1	

I am close January 30

[illegible]

4 AM close January 31

Stat

Bank	54c	5	875	865	126	165	0.00
Beckman	15	277	17	164	169		
Beigman		533	15	12	12		+2
Bellco Ind	14,647,681	47	38	35	35		+1
BellcoMed	25	602	23	23	23		+2
BellcoMed	58	229	7	6	6		+1
Bellco	1.00	25.73	65	64	64		+1
Bellco-Corp	2.25	430	20	20	20		+2
Bellco	0.12	42	4	4	4		+2
BellcoMed	0.0134	133.29	21	21	21		+2
Bellco SV	0.28	10	57	41	41		+1
BellcoMed	0.10	173	17	16	16		+1
Bellco Inc.	0.52	10	107	102	102		+1
Bellco Pkwy	11	2277	73	73	73		+2

- \$ -

Balco	1.10	12	189	30	30	30	+1
Balco	15	132	40	39	40		+1
Balco	0.21	87	19	10	10		+1
Balco	0.42	7	59	24	24		+2
Balco	17	352	58	57	57		+2
Balco	983	5	5	5	5		+2
Balco	0.52	1220	11	11	11		+2
Balco	2	621	2	2	2		+2
Balco	1,204.80	10	34	30	30		+2
Balco	0.24	17	596	20	20	20	+2
Balco	0.20	4	14	2	2	2	+2
Balco	1.12	10	954	40	40	40	+2
Balco	36	5194	19	17	18		+1
Balco	5	1	2	2	2		+2
Balco	5	1	1	1	1		+2
Balco	0.22	17	17	17	17		+1
Balco	0.84	25	2700	45	45		+2
Balco	699	7	7	7	7		+2
Balco	15	454	10	10	10		+1
Balco	38	105	194	18	18		+2
Balco	0.22	1229	31	31	31		+2
Balco	50	688	10	10	10		+2
Balco	10	622	35	35	35		+2
Balco	10	6300	26	24	24		+2
Balco	0.40	10	163	18	18		+2
Balco	2	41	4	4	4		+2
Balco	24	787	35	35	35		+2
Balco	1.00	13	909	67	67		+2
Balco	153	346	7	7	7		+1
Balco	159	704	13	12	12		+2
Balco	0.48	14	5	24	24		+2
Balco	34	878	20	20	20		+2
Balco	731	1500	34	33	34		+2
Balco	5	488	5	5	5		+2
Balco	10	11	40	11	11		+2
Balco	219	1	1	1	1		+2
Balco	0.50	8	576	20	18	20	+2
Balco	1.10	48	13	13	13		+2
Balco	18	31	31	31	31		+2
Balco	24	6285	24	23	23		+2
Balco	2	10	27	27	27		+2
Balco	0.21	18	42	18	18		+2
Balco	0.80	11	10	28	28		+15
Balco	699	0	7	7	7		+12
Balco	41	6	2	2	2		+2
Balco	21	4783	23	31	31		+2
Balco	26	820	25	25	25		+2
Balco	5	1714	17	17	17		+2
Balco	0.39	12	0	164	164		+2
Balco	95	327	48	48	48		+2
Balco	0.10	339	104	6	6		+2
Balco	27	1876	184	184	184		+10

- T -

T-Cell	2561	1	1	1	1	+2	
T-Cell SV	0.32	25	1515	41	40	40	+2
T-Cell	1.32	2677	7	7	7		+2
T-Cell	0.64	21	22	30	30	30	+1
T-Cell	2019	14	13	13	13		+2
T-Cell	24	24	23	23	23		+2
T-Cell	1.20	10	31	53	54	55	+2
T-Cell	1218	204	164	164	164		+2
T-Cell	4845	165	15	15	15		+2
T-Cell	4528	42	42	42	42		+12
T-Cell	0.01143	80	15	15	15		+2
T-Cell	31	1322	28	28	28		+2
T-Cell	0.13	43	55	54	54		+2
T-Cell	3680	63	63	63	63		+2

- T -

T-Cell	12	22	20	6	6	6	+2
T-Cell	12	22	20	6	6	6	+2
T-Cell	0.05	18	8	8	8	8	+2
T-Cell	0.31	77	125	44	44	44	+2
T-Cell	1.25	2677	7	7	7	7	+2
T-Cell	0.64	21	22	30	30	30	+2
T-Cell	2019	14	13	13	13	13	+2
T-Cell	24	24	23	23	23	23	+2
T-Cell	1.20	10	31	53	54	55	+2
T-Cell	1218	204	164	164	164	164	+2
T-Cell	4845	165	15	15	15	15	+2
T-Cell	4528	42	42	42	42	42	+2
T-Cell	0.01143	80	15	15	15	15	+2
T-Cell	31	1322	28	28	28	28	+2
T-Cell	0.13	43	55	54	54	54	+2
T-Cell	3680	63	63	63	63	63	+2

4 run close January 30

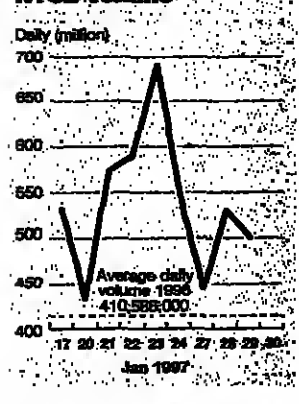
Truong Lab	406	4 ₁	4 ₂	4 ₃	4 ₄	4 ₅
TypePA	0.10	59	4322	34 ₁	33 ₂	33 ₃
- U -						
Uniflow		125	2	2 ₁	2 ₂	2 ₃
UCRWest	1.02	10	68	22 ₁	22	22
United St	12	181	21 ₁	21 ₂	18 ₁	21 ₂
Unibag	0.12	18	906	25	84	24 ₁
Uniflow	2.20	14	270	53	52 ₁	52 ₂
US Stamp	1.24	14	2238	46 ₁	44 ₂	44 ₃
US Cover		45	10 ₁	10 ₂	10 ₃	10 ₄
US Robot	253329		69	68 ₁	68 ₂	68 ₃
US Sample	182	4	2	3 ₁	3 ₂	3 ₃
US Tel	1.20	22	285	48 ₁	48 ₂	48 ₃
USK Corp	0.32	10	2658	19 ₁	19 ₂	19 ₃
Uniflow	0.08	12	1	0	60	11 ₁
Uniflow	0.05	20	2	61 ₁	61 ₂	61 ₃
Uniflow		277	5 ₁	5 ₂	5 ₃	5 ₄
- V -						
Valeport	0.46	18	214	38	37 ₁	38
Vigort Cell	68	536	14 ₁	14 ₂	14 ₃	14 ₄
Vortex x	0.68	0	33	18 ₁	18 ₂	18 ₃
Vandert		14220	17 ₁	17 ₂	18 ₁	18 ₂
Vico	27	404	17 ₁	17 ₂	17 ₃	17 ₄
Vicorflow	10	12 ₁	11 ₂	11 ₃	12 ₁	12 ₂
Vicorflow	251308	14 ₁	12 ₂	14	14 ₁	14 ₂
VLSI Tech	3422288	18 ₁	16 ₂	18 ₃	18 ₄	18 ₅
VLSI Tech	0.68	4075	24 ₁	23	24	24 ₂

[illegible]

US shares pare strong early gains

AMERICAS
Blue-chip shares waxed and waned on Wall Street in tandem with the bond market yesterday while technology issues were broadly stronger as they bounced back from recent weakness, writes Lisa Branstetter in New York.

The Dow Jones Industrial Average jumped nearly 50 points in early trading as the yield on the benchmark 30-year Treasury fell, but the blue chip index retraced its



NYSE volume
Daily (million)
400 500 600 700
11:00 12:00 1:00 2:00 3:00 4:00
Jan 31 1997

gains as the long bond yield once again approached 6.9 per cent.
At 1 pm, the Dow was 18.98 stronger at 6,757.67. The more broadly-traded Standard & Poor's 500 had added 3.19 at 775.59. Volume on the NYSE came to 251m shares.
Technology shares were also well off their session highs. The Nasdaq composite, which is weighted toward that sector, edged more than 25 points in morning trading before falling back with a gain of 5.99 at 1,361.66 by early afternoon.
The Pacific Stock Exchange technology index, which includes both Nasdaq and NYSE companies, was 1.1 per cent stronger.
The Nasdaq was boosted by gains from its three largest components. Intel added 32¢ at \$157.74, Microsoft

Santiago 1.8% ahead

SANTIAGO stood 1.8 per cent higher at midsession, taking its lead from the strong early showing of Wall Street and the firm tone in neighbouring markets. The IPSA index rose 1.89 to 109.97 as investors awaited fourth quarter earnings figures from Endesa, the power giant, later in the day.
Analysts said that the hydro-electric generator's earnings were widely expected to fall sharply as a result of the drought which had pushed up operating costs.
BUENOS AIRES resumed its climb, helped by Wall

Street, a new government bond placement and optimism over the current corporate reporting period. The Merval index was 7.53 higher at 684.42 by midsession.

Analysts noted that the index had bounced up 3.1 per cent over the previous two sessions following a 4.4 per cent four-session slide.

MEXICO CITY moved higher at midsession on what traders said was light buying of blue chips for month-end portfolio valuation purposes.

The IPC index was 30.79 higher at 3,652.41.

Dealers said the market was driven lower by a combination of bullion worries and heavy selling of rand-sensitive stocks. Sasol fell 2.2 or 3.8 per cent to R21.25. Richemont lost 75 cents to R22.50.

The golds index retreated 19.8 to 1,365.7 for a near 5 per cent fall in two straight sessions. Drives gave up R1.10 to R42.30.

Shares in Johannesburg moved sharply lower for the second day running, driven down by adverse futures trading and continued weakness for the bullion price.

The all-share index ended off 29.3 at 6,558.2 following a decline of 48.4 to 7,962.6 for the industrials index which took its losses to 106 points in two days' trading.

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Alcatel up 15.5% as Paris hits all-time high

EUROPE

Shares in PARIS rose to an all-time high on a wave of earnings euphoria, another downward nudge for money market rates and renewed takeover talk.
Alcatel Alsthom, buoyed by news of a spectacular profits turnaround, shot up by 15.5 per cent, and there were strong earnings-driven gains too at Saint-Gobain and Danone.

Having lagged the market significantly since September, when the shares stood at FF233, Alcatel hauled ahead by FF70 to FF322 in 4.5m shares, after declaring that 1996 net profits were expected to emerge at FF2.5bn. This was around FF1bn more than most analysts' estimates and compared with a loss of more than FF2.5bn in 1995, when the electronics and defence group took massive restructuring costs on board.

Saint-Gobain gained FF38 or 4.7 per cent to FF750 after Poliet, a big unit, turned in solid results and Danone edged FF22 to FF484 following the announcement of better than expected figures late on Wednesday.

Sanofi, the drugs group, which had been widely seen as a Rhône-Poulenc takeover target, added FF6 at FF568; and speculation about a

global scramble for hotel assets got behind Accor with Bass, the UK brewer, seen at one stage as a favourite to bid. Accor ended FF21 or 3 per cent higher at FF726.

The CAC 40 index ended 38.05 or 1.5 per cent higher at 2,503.06. Michelin gained FF10.20 to FF320.50 on news of possible plans to list on Wall Street. Peugeot jumped FF230 to FF388 on a buy note from a promoter.

ZUCOR returned to its record-setting ways as a strong demand for pharmaceuticals took the SMI index up 38.4 to 4,398.1.
Clariant added SF11 to SF766 in an upbeat response to its higher 1996 sales and on expectations that earnings would show a

double digit increase. Roche certificates, up in recent days on various rumours, continued to power ahead, rising SF90 to SF12,000.

Nestlé jumped SF38 to SF1,536 on strong demand from a leading bank following a new study on the food group.
Banks underperformed on news that the city and state of New York had warned that they were considering punitive measures against the sector unless Switzerland set up a fund to support Holocaust victims. UBS fell SF18 to SF1,175. Among the insurers, however, the SF12 rise to SF388.50 in Zurich Insurance was attributed to strong demand from the US.

FRANKFURT majored on news after Goldman Sachs upgraded Allianz from "market performer" to "outperformer", apparently on a valuation basis. Allianz leapt DM158 or 5.4 per cent to DM3,062.50, taking its gains to 10.5 per cent in less than a week; other insurers followed, and Munich Re registered rose DM132 or 3.6 per cent to DM3,513.
Carmakers had their moments. BMW put on DM16 at DM1,054.50 for a 13 per cent rise in 1996 sales, and Porsche preps rose DM50 or 3.7 per cent to DM1,390. Mr Christopher Wills of Lehman Brothers, a recent bull of Porsche, said that talk of

denying plans for a probe into stock market trading. The composite gained 72.44 to 7,221.58 in heavy turnover of 1,981.4bn.

Electronics, buoyed by the surge in New York for IBM, led the upturn with a sector gain of almost 2 per cent. Samsung's Dram production cut also helped some Dram-linked shares, notably Acer which put on 50 cents to T\$51 and Taiwan Semiconductor, 50 cents higher at T\$56.50.

BANGKOK clawed back some of Wednesday's heavy losses, with the SET index recovering 5.79 to 820.18. The latest trade data was said to have been relatively supportive but there were

worries about the baht which lost ground against the dollar.

Telecommunications and energy stocks were active. TelecomAsia added Bt2.25 to Bt50.50 and Advanced Info heavily sold on Wednesday, picked up Bt4 to Bt250. Finance One was again actively traded, ending Bt0.25 higher at Bt37.25 after touching a low for the day of Bt34.50.

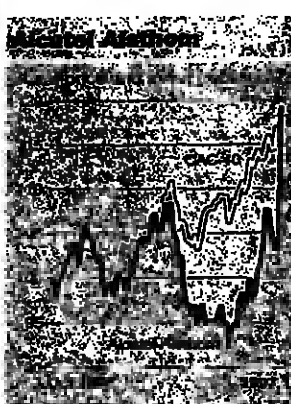
HONG KONG ran out of steam as property issues remained depressed and concerns about interest rates continued to dampen sentiment. The Hang Seng index turned back from an early 13,288.40 to close 2.97 higher at 13,288.40 in turnover of

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SYDNEY edged higher with gains among banks off set by a bad day for News Corporation. The All Ordinaries index added 3.5 to 3,417.7.

NAB rose 11 cents to A\$15.78 as hopes for an interest rate cut continued to underpin the sector. Bank of Melbourne jumped 31 cents to A\$6.91 on takeover talk.

News Corp was hit by speculation that the group would fall short of broker profit estimates. The shares fell 20 cents or almost 3 per cent to A\$6.48.



Alcatel share price
Daily (million)
200 300 400 500
11:00 12:00 1:00 2:00 3:00 4:00
Jan 31 1997

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FTSE Actuaries Share Indices

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STMENT BANKING LEADERSHIP

STRATEGIC ADVISORY

December 1996

\$4,900,000,000



Westinghouse Electric Corporation

has merged with

Infinity Broadcasting Corporation

The undersigned initiated the transaction and acted as financial advisor to Westinghouse Electric Corporation.

Chase Securities Inc.



HIGH YIELD FINANCE

This announcement appears as a matter of record only.

March 1996

\$650,000,000



RIVERWOOD INTERNATIONAL
Riverwood International Corporation

Clayton, Dubilier & Rice Fund V Limited Partnership, management and certain other investors

\$250,000,000
10 1/4% Senior Notes due 2006

\$400,000,000
10 1/4% Senior Subordinated Notes due 2008

Lead Manager
Chase Securities Inc.*



PROJECT FINANCE & ADVISORY

September 1996

US\$ 614,850,000



ARIAWEST International Finance B.V.
(guaranteed by PT ARIWEST International)

Limited Recourse Credit Facilities

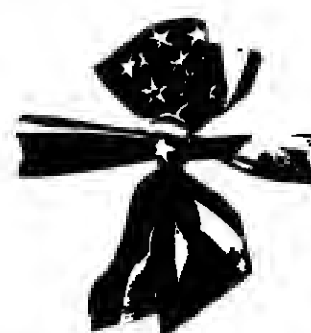
Arranger and Coordinating Bookrunner
Chase Manhattan Asia Limited



GLOBAL EXPERTISE

July 1996

£4,900,000,000



Hanson PLC

Revolving Credit Facilities
in connection with the Demerger

Global Advisor and Coordinator
Chase Investment Bank Limited



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But it's certainly not the end of the story. Fortis has adopted a strategy of growth. The achievement of this strategy is based on a market vision that can be described as multi-domestic, multi-product and multi-channel. It is multi-domestic in the sense that at Fortis we see every country where we operate as a home market, enabling us to

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Fortis can introduce and will do so, provided it helps to achieve our profit objectives. Finally, multi-channel is our way of emphasizing that we plan to reach the client through a variety of distribution channels.

To sum up, this market approach is successful because it meets the wishes of individual clients as closely as possible. And in the coming years it will become even more successful by exploiting the benefits of synergy and the exchange of knowledge and experience within Fortis.

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مركز العمل

10 GLOBAL INVESTMENT BANKING

■ International bond market: by Conner Middelmann

Market set for more growth

A benign economic and interest rate environment fuelled the surge

The international bond market has been growing by leaps and bounds in recent years, and observers say 1997 is set to become another bumper year.

During 1996, borrowers issued \$740.8bn in international bonds - including domestic bonds such as Yankess and Samurais - up sharply from 1995's record-breaking \$515.4bn, according to information published by Capital Data Bondware.

Last year's issuance boom was fuelled by a variety of factors, including a benign economic and interest rate environment, investors' need for diversification and hunger for yield, the emergence of new borrowers and, in Europe, the convergence rally in the run-up to European monetary union.

US dollars accounted for 41 per cent of issuance, up from 35.8 per cent in 1995. They were followed by D-Marks, which accounted for 15 per cent; this sector benefited from consistent arbitrage opportunities in the three- to five-year part of the yield curve, the growth of an asset-backed market and the evolution of the market for "junk-bond-like" mortgage bonds. Japanese yen came third with a 12 per cent share.

The sterling sector increased sharply, accounting for some 7 per cent of total eurobond issuance, from 4 per cent in 1995. Some \$52.5bn equivalent of sterling bonds were issued last year, against \$21bn in 1995.

This was triggered by a resurgence in demand for sterling bonds from international investors, thanks to the hefty yield premium sterling bonds pay over most other European markets, and was helped further by attractive arbitrage opportunities, especially in the

three- to five-year sectors. In the low and stable government bond yield environment, many investors continued their search for yield and chose to move down the credit curve to pick up extra income. This prompted a surge of issuance from emerging-market borrowers, whose lower credit ratings require them to pay higher yields on their bonds than higher-rated issuers.

Borrowers in eastern Europe, emerging Asia and Latin America raised nearly \$80bn in new bonds last year - including Yankess and Samurais - almost twice the \$48bn issued in 1995. Latin America accounted for the bulk of issuance with \$47bn, followed by \$37bn in Asia and \$4.4bn in eastern Europe.

High-profile sovereign debuts included issues from Russia, Kazakhstan, Romania and Slovenia. More firsts are expected this year, including offerings from Ecuador, Croatia, Ukraine and the Sultanate of Oman.

Mexico and Argentina made large and regular forays into the market without compromising their trading spreads. Mexico became the fourth-largest issuer in the international bond market with \$13.5bn, up from 17th place in 1995, while Argentina ranks sixth with \$10.5bn, after ranking 19th in 1995.

And they've already been back this year. Mexico recently launched a \$1bn 10-year global bond while Argentina just issued \$2bn of five-year and 20-year global bonds.

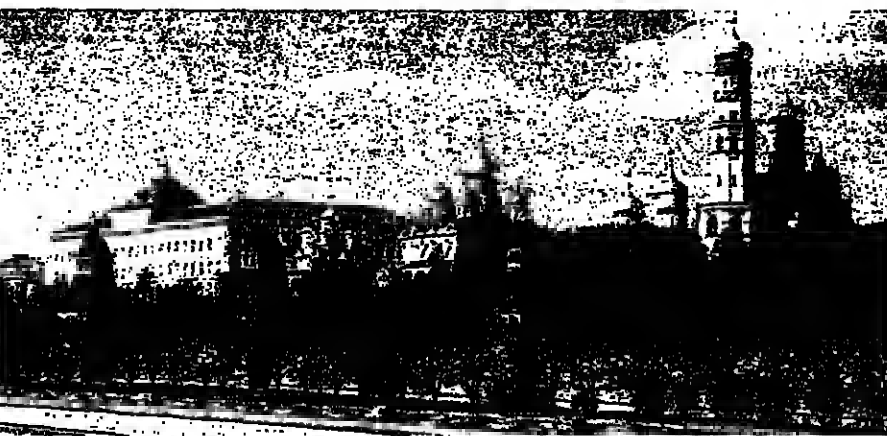
At the same time, yield spreads on emerging-market paper declined sharply, indicating continued strong demand for such paper. For example, Mexico's five-year bonds, issued in January 1996 at 445 basis points over US Treasuries, now trade at a spread of about 245 basis points.

Investor interest in emerging currencies also grew significantly as the decline in interest rates in traditional higher-yielding currencies, such as Italian lira, and Aus-

Top 10 issuers of international bonds: (including Yankess and Samurais)

Issuer or Group	1996				1995			
	Rank	US\$bn	No	%	Rank	US\$bn	No	%
European Investment Bank	1	22.30	105	2.98	1	15.53	55	3.01
Commerzbank	2	14.50	80	1.93	7	7.53	28	1.46
International Bank for Reconstruction and Development	3	14.36	73	1.92	8	8.36	21	1.62
United Mexican States	4	13.52	11	1.80	17	4.75	8	0.92
Caisse d'Amortissement de la Dette Sociale (CAD)	5	10.88	5	1.45				
Republic of Argentina	6	10.15	30	1.35	18	4.40	12	0.85
Landesbank Baden-Württemberg	7	8.46	47	1.26	10	7.08	82	1.37
Kingdom of Sweden	8	6.34	53	1.25	2	14.92	38	2.99
Deutsche Pfandbrief- und Hypothekendarlehenbank	9	5.21	34	1.23	6	7.39	21	1.43
Abbey National	10	4.88	39	1.18	27	3.29	17	0.84
Total*		740.57	4,702	100.00		515.41	3,808	100.00

*The totals include other issuers which have been excluded from the table



Moscow: a high-profile sovereign debut

tralian or New Zealand dollars, shifted the spotlight to higher-yielding markets such as Czech koruna, South African rand, Hungarian forint and Polish zloty.

"The convergence of European currency yields caused by EMU has led investors to look for the next level of possibly converging economies in Europe," says Alison Sparks, director, debt capital markets at Credit Suisse First Boston. "The improving fundamentals in many emerging country economies have made the potential for currency appreciation, as well as the potential for interest rate declines, much greater."

One interesting feature

last year was the shrinkage of the Brady bond market, to the advantage of the eurobond sector. This was partly due to formal exchange programmes by governments wishing to convert their Brady bonds into uncollateralised eurobonds, like the \$1.75bn Mexican and the \$600m Philippine exchanges. In addition, several billions of dollars of Brady bonds were bought by financial institutions who repackaged them and sold them on to eurobond investors, particularly in D-Marks.

This year, observers expect to see more floating-rate note issuance amid expectations of rising US interest rates, an increasing amount of issuance by emerging-market cities and municipalities who use the eurobond market as an alternative to domestic markets, and a broader range of corporates and banks from eastern Europe and Latin America.

Another fast-growing segment was the market for asset-backed securities (ABSs). Growth was especially buoyant in Europe, where securitisation has been slower to take off than in the US.

According to Capital Data, some \$102bn of ABSs were issued in 1996, nearly three times the \$39bn sold in 1995. European borrowers' share of ABS issuance doubled to 22 per cent from 11 per cent in 1995, while US issuers accounted for 66 per cent, up only slightly from 64 per cent in 1995.

The most prominent ABS transactions last year included a \$1.4bn deal, called CyberVal, for EPRF, the French government-guaranteed entity set up to help rescue Credit Lyonnais; a \$4bn issue for GPA, the Ireland-based aircraft leasing company; and the Spanish government's \$1.75bn bond

issue securitising nuclear reactor debt.

Heavy ABS issuance was fuelled partly by investor demand for higher-yielding, liquid, floating-rate product. Financial institutions, keen to boost their returns, were especially heavy buyers.

But issuers, too, have grown keener to use securitisation, which allows many of them to cut borrowing costs and broaden their funding base. "In Europe, securitisation is becoming a more widely accepted corporate-finance tool," says one trader.

Meanwhile, the bookrunner's league tables remained firmly dominated by the US investment banks, with Merrill Lynch in the lead, followed by Morgan Stanley, SBC Warburg, Goldman Sachs, JP Morgan and CS First Boston.

The US houses benefited from the surge in dollar issuance and the growth in the asset-backed sector, where they are still seen to have an edge over their European competitors.

Whether 1997 will produce another bumper year in the international bond market is debatable, however. Some dealers warn that issuance might get depressed at times of volatility surrounding possible interest-rate increases in the US, EMU-related political tensions in Europe, or worries over the hand-over of Hong Kong to China this summer.

However, others are more optimistic. "The last two years have seen a large-scale migration of business from the domestic markets to the international market, and it's hard to envisage what would change that," says Roger Bates, director, bond syndicate, at Deutsche Morgan Grenfell. "I am looking for continued growth though maybe not at such a dramatic rate as in 1996."

■ Convergence in Europe: by Edward Luce

Emu concentrates career minds

Leading banks have set up working groups to examine the effect of monetary union

With about 300 working days to go before the European Union decides which of its members qualify for the European single currency, many of the continent's bond traders are worrying about their career prospects. The possibility that 13 of the 15 EU member-states - excluding the UK, which is sceptical, and Greece, which has almost no chance of meeting the criteria in time - will join the single currency at its planned inception on January 1 1999 is starting to exercise minds on trading floors.

In the past few months, almost every leading investment bank has set up internal working groups to look at what effect the abolition of most of Europe's currencies will have on their bond trading floors. Most have yet to reveal their findings, but few in the industry doubt that the shift will lead to redundancies.

"There are undoubtedly going to be job losses in the hard-core countries expected to join Emu if the convergence process continues this year," said Mark Cliffe, chief international economist at HSBC Markets in London. "The reduction in the scope for arbitrage will take a lot of business away from the government bond markets."

Analysis says that even if the high-yielding economies, such as Spain, Italy and Portugal, fail to make it into the first wave of Emu membership, trading floors will still be hit hard. Trade in the hard-core, so-called "haffling" countries, comprising Belgium, Austria, France, Finland, Luxembourg, Ireland, the Netherlands and Germany, makes up the large part of business in Europe.

"If I was a French bond trader based in Paris I would be looking pretty carefully at my career plans at the moment," said Simon Briscoe, director of research at Nikko Europe in London. "There will be very little opportunity for straight government bond trading once the Euro replaces the national currency. The perception is growing that Lon-

don will be the place to be after 1999."

Some economists believe that sterling's exclusion from the single currency will enhance London's primacy as a centre for foreign exchange dealing in Europe after 1999.

Sterling's 14 per cent trade-weighted appreciation since August last year might become a more regular phenomenon if problems arise during the early stages of Emu. The UK currency, in other words, could be viewed as a safe haven when the Euro hits rough patches, providing a similar outlet for nervous European investors as the Swiss franc has for German investors over the last two years.

The downside for London-based trading floors will also be limited by the fact that the City will almost certainly be the centre for arbitrage between the Emu "ins" and "outs" who will be linked by a new exchange rate mechanism (ERM2).

Indeed, some believe that the untested mechanisms of ERM2 could in the short-term actually enhance the volatility of European markets. Critics say that ERM2 is "asymmetric" as member-states will be linked to the Euro as their anchor currency, but will only have limited call on the European central bank to intervene on their behalf. The temptation for competitive devaluation should not be underestimated therefore.

Another growing possibility is that there will be disputes within the Euro zone between a group led by France, which will lobby for the depreciation of the Euro against the US dollar to boost growth, and another led by Germany, which will want to shore up the Euro's integrity with tight monetary policies. Either way, the resulting uncertainty can only benefit trading floors.

"The eurozone could be highly volatile in the short-term," said Mr Cliffe. "There is a tendency for bond traders to think in doomsday terms, but a lot of the slack could be taken up by emerging east European bond markets and the relationship between the 'ins' and the 'outs'."

The shift of trading after EMU onto the second wave of entrants and the prospective east European applicants, including Poland,

Hungary and the Czech Republic, could make up for part of the losses from the first wave, economists say. In addition, new employment is likely to be created by the further development of the eurobond market, which is considered to be streets behind its counterpart in the US. The shift, for example, towards greater securitisation in Europe has only just begun.

Similarly, the abolition of currencies within the single currency zone and the adoption of a single interest rate will focus investors' attention more strongly on credit risk than spreads after 1999. The spreads between French and Belgian bonds, for example, will be even narrower than at the moment, but the differences between debt to GDP ratios will have barely altered. The development of a more sophisticated credit risk market in corporate eurobonds will also accelerate.

"There will still be some spread trading between government bond markets after Emu," says Craig Shute, chief economist at Bear Stearns in London. "So far, there is no common Euro approach on how to convert national currency debt into Euro-debt after EMU and there is little sign that there will be soon. Market confusion over this is likely to create its own opportunities."

Over the next few months, however, question marks over the sustainability of the convergence process towards Emu, which has seen spreads on Italian bonds tightening from 430 basis points over 10-year German bonds to 160 basis points in just a year, is likely to overshadow speculation about the post-Emu market.

Many investors expect 1997 will become the year of divergence as markets look more closely at the economic fundamentals of countries such as Italy and pay less heed to their political will to meet the convergence criteria.

In the short-term, therefore, the markets could become more lively before they quieten down. "The big profit last year were on convergence trade," said Mr Briscoe. "This year it is more likely to be from divergence. But in the long-run jobs are going to have to move elsewhere."

Volume of international bond issuance: (including Yankess and Samurais)

	1995			1996		
	US\$bn	%	Iss	US\$bn	%	Iss
US dollar	198,408.77	38.49	1,087	310,457.17	41.42	1,432
Japanese yen	89,519.23	17.37	1,037	90,705.22	12.10	1,288
Deutsche mark	85,895.05	16.66	334	110,926.28	14.80	410
Sterling	21,221.14	4.12	106	52,520.32	7.07	238
French franc	12,653.93	2.49	42	54,076.58	7.21	126
Swiss franc	28,452.43	5.71	294	25,577.28	3.55	316
Italian lira	12,581.99	2.44	96	25,984.99	3.47	125
Dutch guilder	16,273.76	3.16	85	21,509.51	2.87	100
Canadian dollar	2,874.90	0.56	33	6,344.09	0.85	61
European currency unit	7,183.57	1.39	30	4,632.24	0.62	33
Total*	515,414.51	100.00	3,903	749,570.50	100.00	4,702

*The totals include other minor currencies which have been excluded from the table

Source: Capital Data Bondware

Top 10 bookrunners of international bonds: (excluding Yankess and Samurais)

Manager or Group	Whole year 1996				Whole year 1995			
	Rank	US\$bn	No	%	Rank	US\$bn	No	%
Merrill Lynch	1	51.80	283	7.66	1	30.45	190	6.55
Morgan Stanley	2	37.06	235	5.48	5	23.03	151	4.96
SBC Warburg	3	36.50	198	5.39	2	25.99	147	5.69
Goldman Sachs	4	34.14	107	5.05	11	15.34	82	3.30
JP Morgan	5	33.77	179	4.99	3	25.88	147	5.67
CS First Boston/Credit Suisse	6	28.23	161	4.17	6	19.39	81	4.17
Deutsche Morgan Grenfell	7	28.03	160	4.14	9	17.61	83	3.79
Lehman Bros	8	27.12	151	4.01	4	23.84	195	5.15
Nomura Securities	9	24.89	265	3.68	10	15.93	114	3.41
Union Bank of Switzerland	10	24.67	170	3.65				
Total*		676.63	4,382	100.00		464.56	3,345	100.00

*The totals include other bookrunners which have been excluded from the table

Source: Capital Data Bondware

■ US debt underwriting: by Lisa Bransten

Records tumble in bumper year

Issuance of straight debt surged 21 per cent last year to \$536bn

While the record amount of equity underwritten last year captured headlines, the dollar amount of stock offerings was dwarfed by the enormous amount of corporate debt issued.

Analysts are cautious about the outlook for 1997. This year has started out on a strong footing largely driven by an overflow of deals that were not completed in 1996, but external forces such as a jump in interest rates could quickly halt the rush to issue debt.

Issuance of straight debt, which excludes mortgage and asset-backed securities, surged 21 per cent to \$536bn to pass the record set in 1995 and far outstrip the \$115bn in common stock sold on to US markets last year, according to Securities Data, which tracks the industry.

Well over half of the debt issued last year came from companies rated investment grade by the credit-rating agencies and for a second

year Merrill Lynch dominated in this category with a market share of about 18 per cent. In second place was Salomon Brothers, which maintained its 1995 position to claim a 12.5 per cent share of the market, according to Investment Dealers' Digest.

On the sub-investment grade front, Donaldson, Lufkin & Jenrette once again was the dominant force with about 15 per cent of the total \$74bn, while Merrill Lynch climbed from fourth place to second with a 13 per cent market share, according to Investment Dealers' Digest.

One of the driving forces behind 1996's record issuance of investment grade debt was last year's surge in merger and acquisition activity, says John Qua, co-head of global debt capital markets at Merrill Lynch. Both entertainment giant Disney and Aetna, the insurance group, conducted multi-billion-dollar debt transactions in connection with large acquisitions.

That trend appears to be continuing this year. In mid-January, US West Capital Funding, an arm of the US cable and telecommunications group, conducted the largest investment grade

issue when it sold \$4.1bn of debt in relation to its purchase last year of Continental Cablevision Systems.

Not only was debt financing necessary for many companies, but it was also attractive given that US Treasury yields were relatively stable at historically low levels last year. Despite some volatility during the year, the yield on benchmark 30-year Treasury bonds only fluctuated within a percentage point of the 6 per cent yield where it was last in January 1996.

That led to what Mr Qua terms several waves of "tactical financings" by companies eager to refinance at lower yields as Treasury yields dipped during rallies. It also led to a surge in issuance of 100-year debt. A record 18 companies sold \$2.5bn in century debt last year, far outstripping the previous record of seven companies issuing \$29bn of debt set in 1986.

Last year the largest 100-year bonds issues came from Columbia/HCA Healthcare, the hospital company, and Monsanto, the chemicals and biotech company, both of which sold more than \$200m of the long-term debt. So far

this year there have been three century issues totalling \$800m.

Another reason for the surge in century was a rush to get into the market before the government closes the loophole that makes such debt so attractive. Because the debt is not repaid for such a long period, it functions almost like equity yet the interest paid is tax deductible. But market watchers expect the government to take away the tax incentives of century bonds early this year.

Investors' demand for new debt was strong through the year helping push the spreads of corporate debt over Treasuries to record lows, says Diane Vazza, head of fixed income research at Standard & Poor's, the credit rating agency. The average spread of single-A, investment-grade debt narrowed by about 18 basis points, she says.

The same was true on junk bonds, where the yield on the average double-B credit narrowed by 96 basis points. Bennett Goodman, managing director of high yield bond department at Donaldson, Lufkin & Jenrette, says

that much of the demand for high-yield debt is driven by a new attitude toward the riskier securities by portfolio managers. "Five years ago you had to justify to your investment board why you were holding junk bonds, now you have to rationalise why you don't," he says.

Another source of high yield issuance last year came from companies from emerging market countries - especially Latin America and Asia, which began a return to international capital markets in the second part of 1995 and continued to tap the US market last year. Ms Vazza says she expects that trend to continue at least through the first quarter of this year because the need for capital is so strong.

Higher yielding debt is also alluring for companies because of a sharp drop-off in the number of defaults. Last year, 14 issuers defaulted on \$3.6bn in debt, fewer than half the default rate in 1995 and sharply lower than the record 65 companies that defaulted on \$20bn in 1991, according to S&P.

It is unlikely that the default rate will ever return to that seen in the early part

High-yield debt placed in the US market

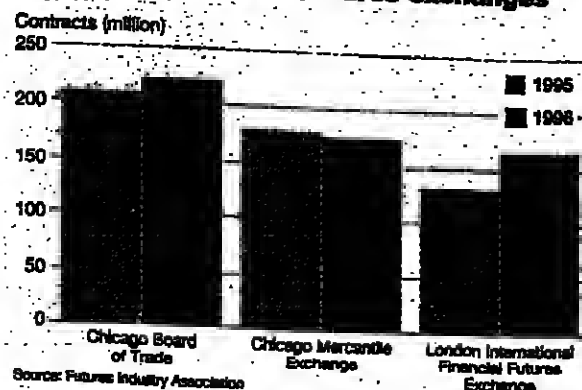
Manager	1996			1995		
	\$m	%	Issues	\$m	%	Issues
Donaldson Lufkin & Jenrette	10,896.7	14.8	56	6,758.5	15.7	35
Merrill Lynch	9,268.5	12.6	54	4,522.1	10.5	28
Salomon Sachs	7,843.9	10.6	34	6,836.8	13.5	27
Bear Stearns	5,814.5	7.8	33	2,395.5	5.8	11
Salomon Brothers	6,181.0	7.0	28	2,863.5	6.2	13
Morgan Stanley	5,107.4	6.9	30	5,825.1	13.0	27
Bankers Trust	3,826.1	5.2	24	3,045.6	7.1	20
JP Morgan	3,753.8	5.1	18	582.2	1.3	5
Credit Suisse First Boston	3,430.1	4.6	21	2,336.8	5.9	16
Chase Manhattan	3,351.3	4.5	17	2,382.1	5.5	17
Industry totals	73,844.8	100.0	407	43,143.0	100.0	257

Source: Investment Dealers' Digest

Investment-grade debt placed in the US market

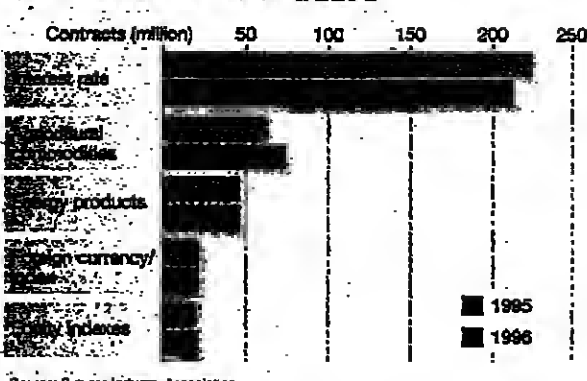
Manager	1996			1995		
	\$m	%	Issues	\$m	%	Issues
Merrill Lynch	93,575.7	18.3	763	82,570.8	19.4	704
Salomon Brothers	68,843.7	12.5	438	51,111.7	12.0	415
Goldman Sachs	55,343.2	10.8	629	38,254.2	8.0	285
J.P. Morgan	58,123.6	10.4	382	28,592.0	6.7	264
Lehman Brothers	51,571.7	10.1	521	46,414.6	10.5	402
Morgan Stanley	46,256.8	8.4	359	47,478.2	11.2	398
Credit Suisse First Boston	34,271.3	6.7	330	34,118.6	8.0	298
Bear Stearns	18,103.9	3.1	234	11,770.2	2.6	180
Smith Barney	15,124.7	3.0	241	11,105.1	2.6	173
Nations Bank	14,557.1	2.8	250	8,759.0	2.1	118
Industry totals	511,375.1	100.0	5,806	424,238.2	100.0	4,781

World's three largest futures exchanges



Source: Futures Industry Association

US futures contracts traded



Source: Futures Industry Association

Exchange-traded derivatives: by Laurie Morse

Futures trading slackens

The exchanges bore the brunt of the decline in activity during the past year

Investment banks have always been the best customers of the world's derivatives exchanges, with investment bankers routinely using the wholesale, listed markets to lay off risks incurred in writing tailored risk-management contracts for their customers. As banks became more creative in designing and marketing structured derivatives transactions, the futures and options industry benefited from the growth in over-the-counter trades.

However, in 1996 this happy relationship showed some signs of weakening. Low interest rate volatility and the currency convergences of the European Monetary Union cut profits for both listed and OTC transactions, and the futures exchanges, particularly the Chicago Mercantile Exchange, bore the brunt of the decline in activity.

Dealer-operated electronic trading systems and trading firms' growing use of bilateral netting agreements also cut away at the futures exchanges' margins. After nearly two decades of remarkable growth, and then an off year in 1995, US futures trading volume gained only half a percentage point in 1996, for a total of 397m contracts.

That marginal overall gain

masks a steep decline in turnover in dollar-denominated interest rate and foreign currency futures trading, the two areas most dominated by investment banking firms. Futures volumes rose for commodity products, and for equity index and precious metals contracts, but exchanges attribute advances in these areas to hedge funds rather than to banks.

The CME's benchmark Eurodollar futures contract volumes dropped 7 per cent in 1996, from a weak 1995. The Chicago Board of Trade's treasury bond futures contract volumes slipped 1 per cent. Low interest rate volatility was the primary culprit, traders say. The US is in the midst of its second-longest period of interest rate stability in its history. The US Federal Reserve has not adjusted its discount rate since January 31, 1996.

"When you have low interest rate volatility, spreads tend to disappear," said David Rutter, managing director of Prebon Yamane, a leading inter-dealer broker. "Dealers have to make bigger trades to make money, and the over-the-counter markets are a much easier place to execute these larger sizes."

Mr Rutter has also noticed that as bilateral netting agreements become more common between clients, credit available for OTC derivatives transactions has expanded, and the credit advantage of using a futures exchange clearinghouse has

become less important. "The credit enhancement (of a clearinghouse) is not the issue it used to be," he says. OTC broker commissions have also fallen dramatically in the past three years, making plain vanilla swaps trades cheaper to execute. A one-year interest rate swap with a notional value of about \$100m would have incurred about \$10,000 in brokerage fees in 1993, while fees for the same swap today are about \$2,500. Futures brokerage commissions for essentially the same trade done on an exchange are still cheaper, at about \$1,600, but the exchanges' cost advantage is shrinking.

Investment banks are not about to bypass futures exchanges completely. Despite volume dips this year and last, the CME's eurodollars are still the largest and most liquid futures contract in the world. Volume in non-dollar exchange-traded instruments grew last year, boosting business at some exchanges, including London's LIFFE.

The most recent data collected by the Office of the Controller of the Currency, the US agency that monitors commercial banks, show that exchange-listed derivatives have remained at a relatively stable 13 per cent of all derivatives on the books of US national banks, and that the volume of derivatives trading overall is expanding.

Michael Bannerman, the OCC's acting senior deputy controller for capital markets, said that despite nega-

tive perceptions of derivatives in some quarters, "as people become better at risk management, they find they have to have derivatives as a tool". Mr Bannerman notes that exchange-traded options are becoming increasingly popular among the end-users. In fact, in 1996, options on futures were the fastest-growing area of exchange derivatives' business.

Futures exchanges are aware of the paradox that makes OTC derivatives their highest source of business as well as their most substantial competitors. The Chicago Board of Trade recently announced a partnership with Prebon Yamane and another inter-dealer broker, Liberty, to develop an electronic trading system designed to take advantage of the best features of listed and OTC derivatives trading. Chicago Board Brokerage, or CBB, as it is called, will allow OTC traders to clear swaps and other non-futures transactions through a subsidiary of the CBO's clearinghouse, allowing multilateral netting that promises to cut credit costs substantially.

At the same time, CBO members will be able to cross-margin cash and futures transactions.

If the system is a success, the joint venture partners hope to offer an array of innovative products that will further close the gap between exchange-traded and custom-crafted derivatives. The first phase of the venture is set to start this September.

OTC derivatives: by Samer Iskandar

Management by mathematics

Disclosure of risk measures signals the coming of age of derivatives

In the derivatives industry 1996 will be remembered as the year rocket science really took off.

Rocket science is the name investment bankers use to describe the high-level mathematics applied in new risk management techniques. The use of these techniques last year culminated in the adoption, across the industry, of standardised risk disclosure - as a result of both voluntary efforts by the industry and lobbying by regulators.

"We are now moving from the theory of derivatives regulation to practising it," says Till Guldemann, executive vice president of Infiniti Financial Technology, a provider of risk management software. "In 1996 regulators convinced market participants to report trading risk in a normalised format... 1997 will be the first time this data is published," Mr Guldemann adds.

Analysts are finding it difficult to predict future reactions to this disclosure. But they agree it is a step in the right direction.

Some even expect risk management to make inroads into the field of asset management. It could ultimately change the way clients assess fund managers. "Instead of comparing different funds based purely on performance, investors will want to know how much risk their fund manager has taken to achieve this performance," one derivatives expert predicts.

"Disclosure of risk measures signals the coming of age of derivatives," says another London-based banker.

But intensifying competition is an unfortunate side-effect often associated with maturing markets. It is expected to be particularly acute in the interest rate derivatives segment.

The resulting environment, where dealing spreads

- which determine profit margins - shrink, is referred to by Jonathan Chenevix-Trench, head of European fixed-income derivatives trading at Morgan Stanley, as the "commoditisation of interest rate derivatives". The broader distribution of derivatives technology and the liquidity in the market mean that these products do not justify the high costs associated with tailor-made instruments.

This was already apparent last year and signs are that "things will only get more intense in 1997," according

Winters, regional head of Fixed Income at J.P. Morgan. "In 1996, this sector came of age. In 1997, it could become a market of its own."

Emerging markets also look promising, with bankers predicting rapid expansion this year. In these markets, the use of derivatives can allow foreign investors to circumvent the problems associated with dealing on the local exchanges, where liquidity and efficient execution of transactions are often lacking.

"It is very easy nowadays to keep your money invested

ing the Czech koruna, for example, rarely extended beyond maturities of two to three years. But a spate of bond issues in the past few months, including some by highly-rated supranational borrowers, has helped establish a liquid market for transactions in the five to seven-year area of the yield curve.

Elsewhere, structured notes are also expected to make a comeback. Investors who chose to avoid derivatives in the wake of highly publicised problems - such as Barings and Procter & Gamble's - are slowly regaining confidence. "A lot of end-users who had left the market are already coming back," says Jamie Greenwald, head of European equity derivatives at Morgan Stanley. "Investors are better informed now and the customer base is widening."

Earlier this month the European Investment Bank met strong demand when it launched a bond paying no coupon, but whose redemption price is a function of the Italian MIB-30 stock market index. The securities attracted a large number of bond investors who did not typically buy equities, according to Deutsche Morgan Grenfell, the lead manager.

"A lot of investors who bought these bonds are expecting equities to benefit more than bonds from rate cuts by the Bank of Italy," said Deutsche Morgan Grenfell after the launch.

But the issue's success was also attributable in large part to the downside protection it offered: in addition to the index-linked performance, a premium attached to the redemption price offered a modest yield should the stock market rise by less than 10 per cent in the next three years.

Bill Winters, at J.P. Morgan, expects this type of product to gain in popularity. "In the future, these notes will be structured to reduce risk, rather than increase it," he says. "I do not expect a return to the highly leveraged products [common in the early 1990s]."



Till Guldemann (left): derivatives regulation now being practised. Bill Winters (right): return to highly leveraged products not expected



Till Guldemann (left): derivatives regulation now being practised. Bill Winters (right): return to highly leveraged products not expected

to Swaps Monitor, the US-based derivatives newsletter.

Conversely, Mr Chenevix-Trench believes, "as these activities become more mainstream, volumes will increase and the sector will acquire longevity".

But high profit margins will have to be found elsewhere. Two sectors in particular are cited by experts as the likely cash cows of the future: credit derivatives and emerging markets.

Although credit derivatives are still considered a nascent sector, a survey published in the third quarter of 1996 by the British Bankers' Association estimated the size of the London market alone at about \$20bn. It also pointed out that dealers were expecting this amount to double in 1998 and reach the \$100bn mark by 2000.

"Credit derivatives are a key growth area," says Bill

Local Expertise, Global Strength

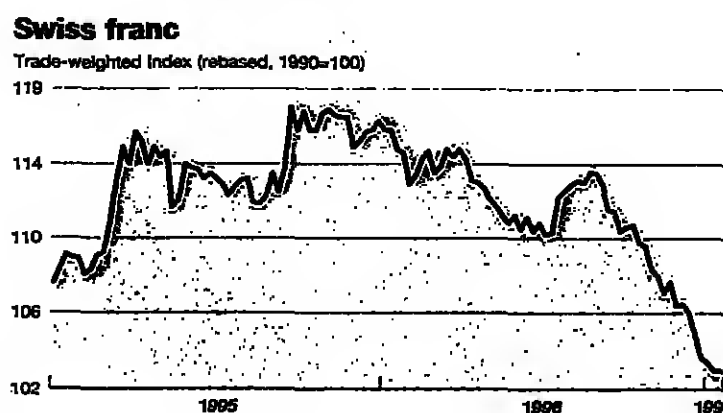
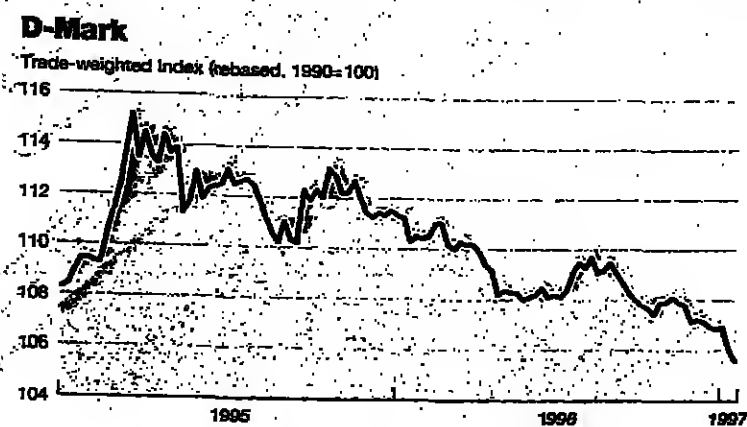
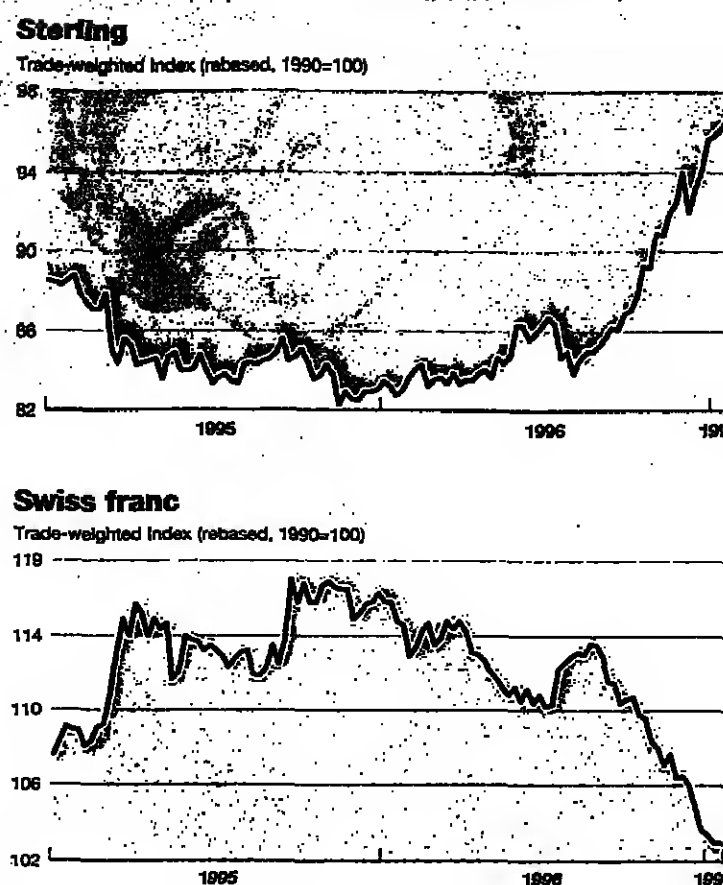
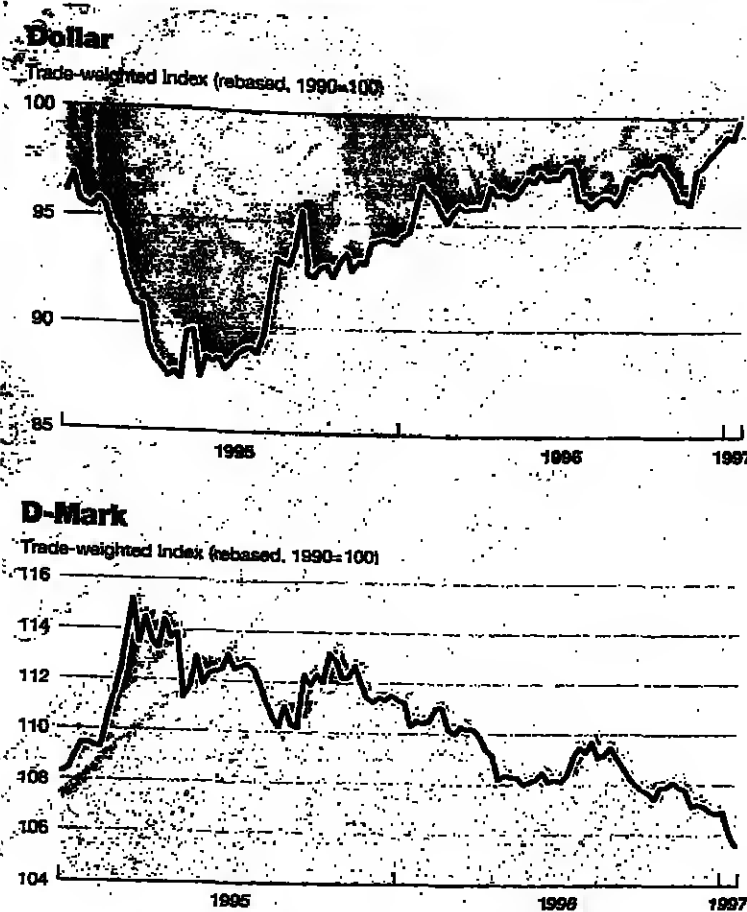
This announcement appears as a matter of record only

January 1997 Ebro Agrícolas Banco Santander, S.A. has sold a 15% stake of Ebro Agrícolas, Compañía de Alimentación, S.A. to Générale Sucrière, S.A. Santander Investment acted as Financial Advisor to the seller	December 1996 Amper, S.A. has sold an 80% stake of Amper Electrónica Aragonesa, S.A. (Amper Elen) and a 10% stake of Amper Datos, S.A. to Siemens, S.A. Santander Investment acted as Financial Advisor to Amper, leading a "Follow-on Offer"	December 1996 mte mte y costas y mte y s.a. Public Offering of 60.8% of nominal capital Initial Public Offering in the Spanish Continuous Market Ptas. 6,197 MILL Santander Investment acted as Book Runner and Agent Bank	November 1996 Empresa Nacional de Electricidad, S.A. has acquired 35.7% of the shares and convertible bonds of SE Compañía Sevillana de Electricidad, S.A. Santander Investment acted as Financial Advisor to ENEL	November 1996 Empresa Nacional de Electricidad, S.A. has acquired 26.0% of the shares of Fuerzas Eléctricas de Cataluña, S.A. Santander Investment acted as Financial Advisor to ENEL	MADRID LONDON NEW YORK TOKYO LISBON
October 1996 Endesa Desarrollo, S.A. The Consortium Eléctrico Cabo Blanco, S.A. led by Endesa, has acquired a 60% stake of Empresa Eléctrica de Pinar, S.A. (Peri) Santander Investment acted as Financial Advisor to Endesa and co-invested in the transaction	July 1996 Talgo Talgo and the railway authorities in Germany, Poland, Belarus and Russia, in co-financing with the EBRD, have established the passenger rail corridor Berlin - Moscow Ptas. 7,000 MILL Santander Investment acted as Financial Advisor and structured the Project Finance	June 1996 TRANSGÁS Structuring of guarantee and syndication of the Project Finance of the Spanish tranches of the Maghreb-Europe pipeline Ptas. 14,267 MILL Santander Investment acted as Financial Advisor to Transgas	April 1996 PULEVA Santander Investment, S.A. has acquired a 20.6% stake of Puleva Unión Industrial y Agro-Canadense, S.A. Santander Investment	March 1996 ARGENTARIA Ptas. 156,146 MILL Secondary Offering Joint-Global Coordinator Joint-Lead Manager in Spanish Retail and U.K. Co-Lead Manager in Spanish Institutional and U.S.A. Santander Investment	MILAN BOGOTA BUENOS AIRES CARACAS LIMA
February 1996 Empresa Nacional de Electricidad, S.A. has acquired a 5.6% stake of Compañía Española de Petróleos, S.A. and has sold a 2.5% stake of Unión Eléctrica Fenosa, S.A. CEPSA UNION FENOSA Santander Investment acted as Financial Advisor to ENEL	February 1996 REFOL Ptas. 139,953 MILL Secondary Offering Joint-Lead Manager & Joint Book Runner in Spanish Retail and U.K. Co-Lead Manager in Spanish Institutional and U.S.A. Santander Investment	December 1995 Endesa Desarrollo, S.A. has acquired a 19.5% stake of Edenor Empresa Distribuidora Norte, S.A. (Argentina) Santander Investment acted as Financial Advisor to Endesa and co-invested in the transaction	November 1995 Consorcio de Aguas de la Bahía de Palma Long-Term Structured Financing Ptas. 4,500 MILL Santander Investment acted as Financial Advisor to Consorcio de Aguas de la Bahía de Palma	October 1995 Telefonica de España, S.A. Ptas. 163,124 MILL Secondary Offering Joint-Lead Manager in Spanish Institutional and Retail Co-Lead Manager in Continental Europe Co-Manager in U.S.A. Santander Investment	MEXICO D.F. SANTIAGO DE CHILE SAO PAULO HONG KONG MANILA

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■ **Currency markets:** by Philip Gawith

No news is good – and bad

Guardians of the world's exchange rates have been conspicuous by their absence

The most exceptional feature of the currency markets is just how well they are behaving.

It was August 1995 when leading central banks last intervened in a concerted fashion to try to affect the values of currencies – in that case to bolster the dollar. Since then, they have been conspicuous by their absence. It is more than a decade since there has been a similar period of abstinence by the world's exchange rate guardians.

From the point of view of governments and central banks, it is very much a case of no news is good news. For traders and banks, of course, it is a different matter. They yearn for the volatility which not only prompts more customer business – companies and investors undertake more hedging when they are scared of sharp movements – but also offers much greater scope for trading profits.

So while figures from the Bank for International Settlements show that total global turnover grew by 30 per cent to around \$1,200bn a day between 1992 and 1995, this has not translated into a huge bounty for all working in the industry.

Currency markets are not well known for a fine sense of judgment. Indeed, they

are characterised by almost always dramatically overshooting any sense of fair value. Just as the dollar was oversold when it slumped to DM1.34 and ¥79.75 in April 1995, so the D-Mark and the yen were overvalued.

The main feature of the markets since that time has been the steady correction of these anomalies. The dollar's recovery against the yen has been stronger, recently reaching ¥117, but it has also made steady progress against the D-Mark, approaching DM1.60. Losses against currencies such as the Canadian dollar, and more recently sterling, have limited its trade-weighted gains to around 12 per cent since the 1995 low.

Aside from the dollar's steady progress, the other feature has been the increasing acceptance by markets that monetary union will take place in Europe. This has been accompanied by some strong rallies in the currency and interest rate markets of countries such as Italy and Spain. The second half of 1996 also saw strong moves in sterling and the Swiss franc, at the time the most under- and over-valued of the leading currencies. The Swiss franc has lost nearly 10 per cent of its value in less than six months, while sterling has gained 15 per cent – both on a trade-weighted basis.

This outbreak of common sense is not a complete accident. Exchange rates do, in the long run, tend to reflect underlying economic shifts between countries. But the

recent moves also represent a greater sense of common purpose among G7 partners (the world's largest industrial democracies – the US, Japan, Germany, Britain, France, Italy and Canada) than was evident in the past. As Larry Summers, the US deputy treasury secretary told a New York audience last summer: "The only path to enduring exchange market stability is through the pursuit of sound economic policies."

Currency markets are not well known for a fine sense of judgment

That message is barely controversial, and quiet currency markets are simply the obverse of convergent economics – generally low inflation and smaller external imbalances than in the past. Against this backdrop, there is simply less work for exchange rates to perform.

Alas, from the point of view of traders, this is the whole problem – less work soon translates into fewer jobs. Unsurprisingly, the industry is downsizing with a vengeance. There are four separate issues at play:

● **Quieter markets:** policy convergence is dampening volatility, with the whole Emu process simply adding further impetus to the pro-

cess. One requirement necessary for Emu qualification is exchange rate stability. This has resulted in some European central banks both buying and selling their currencies in order to ensure their stability.

● **Technology:** as is the case throughout the banking industry, machines can do many back-office tasks more cheaply than people. Electronic broking, which allows electronic matching of orders to buy and sell currencies without any human intermediation, is also gobbling up market share.

● **Consolidation:** large mergers, such as those between Chase and Chemical banks, and Bank of Tokyo and Mitsubishi, inevitably involve large job cuts; indeed, their very motivation stems from the ability to cut their fixed costs. The new Chase employs around 20 per cent fewer people than the combined total before the banks merged.

● **Centralisation:** increasingly, banks are consolidating their price-making capabilities in regional centres, normally one in each time zone. Local branches are then used simply as marketing outlets, with price-making limited to the local currency. Previously, banks were making prices from numerous different centres.

In the case of Europe, this has meant London growing at the expense of smaller centres such as Milan and Madrid. But, overall, the number of jobs has shrunk sharply. Citibank cited figures recently which showed

that it now did more dollar/D-Mark business in Europe with six traders in two centres than it did eight years ago with 39 traders in 17 centres.

The upshot of all this is that it is now more difficult to make money in foreign exchange. Banks who lack a decent customer franchise, and have simply waited for a trend to hop on to, have been forced to re-examine their reason for staying in the market.

It is not all doom and gloom; there are growth areas of considerable potential, too. In terms of product, currency derivatives are growing as customers learn to use the increasingly sophisticated tools of risk management available to them.

Furthermore, there is the area of emerging markets, or exotic currencies. The superior growth rates these economies enjoy compared with industrialised countries will inevitably be reflected in the pattern of currency market trading. As the economies grow, so they trade more and attract greater capital and investment flows. These generate foreign exchange activity. But this story needs to be kept in perspective: countries such as China and Russia may be sleeping economic giants, but until they have more developed capital markets, currency trading will remain constrained.

The day is still some way off when an exotic currency supplants one of the more established currencies in importance.

■ **Global custody:** by Katy Massey

Safekeeping operation makes a comeback

Custody has become dependent for profitability on huge economies of scale

The long-awaited decision by Morgan Stanley to purchase Barclay's global custody business has placed the unfashionable activity of custody on to the business agendas of investment banks. This is something of a comeback for custody, which is traditionally regarded as a labour-intensive activity offering comparatively low profit margins. Add the fact that the safekeeping of money does not exactly ooze glamour, and it is not difficult to see why institutions have been leaving the industry in droves.

The number of banks which have left the business over the last couple of years – most notably J.P. Morgan, Goldman Sachs and Bank of America – supports the view of most industry participants that custody has become dependent for profitability on huge economies of scale. Assets under administration have to be in the thousands of billions before low fees (which at their lowest may be a fifth of a basis point) coupled with the enormous cost of re-investment in people and technology can produce a viable business, the argument runs.

Morgan Stanley's purchase will make it the seventh largest global custodian in the world with total assets of around \$300bn. Clearly this is not in the same league as Bank of New York, State Street, and Chase Manhattan which all boast more than \$2,000bn. The scale argument cannot account for Morgan Stanley's belief that it can succeed where others have failed. In fact, Morgan Stanley's confidence that it can effectively compete in the custody industry may indicate that other investment banks could have been too hasty in leaving the sector.

This idea is supported by research which shows that demand for custodial services is set to enter a boom phase. Citibank has found that two thirds (66 per cent) of US portfolio managers will increase their investment in foreign equities/ADRs over the next three years.

Research by Intersec Research Corp. on behalf of Citibank, shows that the scale of cross-border investment among 12 countries which represent 98 per cent of institutional cross-border assets will increase by 100 per cent from nearly \$3,000bn in 1995 to \$6,000bn by 2000. A growing propor-



James Economides: concept of a one-stop shop is not viable

tion of this investment is finding its way into emerging economies which attract higher fees for custodians offering services in these territories.

Because they are investing more intensively overseas, custody clients are becoming more demanding. Add-on services such as securities lending are becoming a more important part of the custodian's product mix. The idea that the investment banks may have chosen the wrong time to get out of the business is gaining currency because their sophisticated financial products expertise is proving an important added value in the previously staid custody world.

David Newman, head of European custody at Morgan Stanley, believes that the technological sophistication and the product expertise offered by the bank is crucial. "It is fundamentally important that the market place continues to offer accurate and timely data and quality client service, particularly in emerging markets."

Mr Newman denies that the motivation to invest in custody is a loss-leader to sell higher-cost services to clients. "Securities lending is a value-added. Some custodians have thought to subsidise custody with securities lending. We have not done that," he says.

Investment banks are traditionally product-driven, identifying custody as a service which is low down the value chain. Custody, though it might add a secure revenue stream to a volatile balance sheet, is simply not enough of a core activity to justify the huge investment in technology. And the investment required can be huge.

Morgan Stanley has made a huge across-the-board technology investment of around \$700m, some of which will feed into its custody activities. Bank of New York has spent \$200m on technology over the past five years in the custody area alone. Bankers Trust more than \$100m and Chase Manhattan more than \$50m.

Ross Whitehill, a director at specialist custody consultant Thomas Murray, argues that it is not just size, nor even expertise in the product area which decides a money manager's choice of custodian. "An emerging key area is the extent to which a custodian is willing to accept risk. Some will accept far greater responsibility for administrative performance than others."

Size, expertise and risk acceptance are crucial features in the choice a client makes. But most important of all is choosing the most appropriate features to match the portfolio, a point James Economides, head of Citibank's European custody operations makes.

A pension fund's primary concern will be security, so the strength of a potential custodian's balance sheet is crucial. For a highly aggressive hedge fund manager, product expertise is much more important. "I don't really think that the concept of a 'one stop shop' is viable," Mr Economides says.

While it seems that there is a role for the investment banks' expertise, the commercial and trust operations will still find plenty of appetite for their plainer and cheaper safe-keeping services.

Katy Massey is editor of *Clearing & Settlement Magazine*.

■ **European privatisations:** by Conner Middelmann

State sell-offs may raise \$53bn

The pre-Emu rush to complete state sales is likely to produce even greater proceeds

European privatisation sales reached record volumes last year, spurred by rallying stock markets and governments' eagerness to complete their flotation programmes before the start of European monetary union.

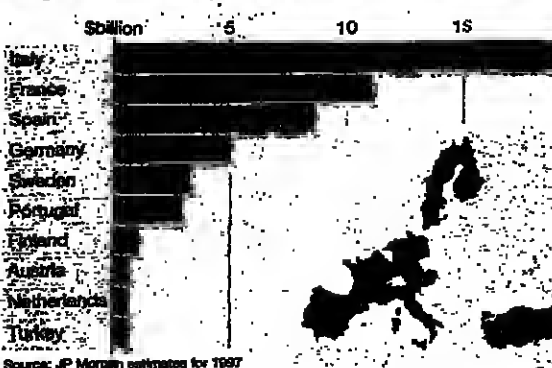
This year, however, privatisation sales are set to be even greater. According to recent forecasts by JP Morgan, the US investment bank, the governments are likely to raise an estimated \$53bn through the sale of state assets – easily surpassing last year's \$48bn – and signal the peak in issuance before the end of the century.

In 1996, JP Morgan expects to see \$42.4bn in privatisations, followed by \$22.4bn in 1997. The total value of European privatisation proceeds to date is around \$230bn.

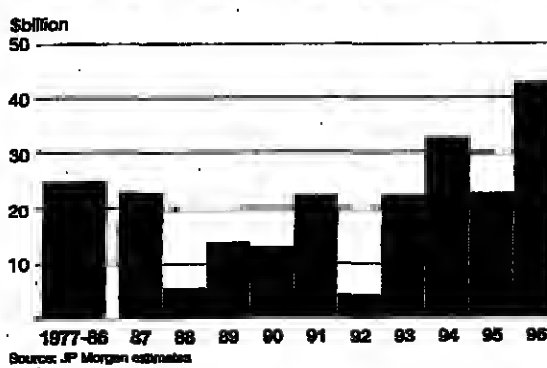
"The increase in anticipated 1997 revenues is not only the result of postponements from 1996, but to a great extent, a reflection of the urgency to complete some of the privatisation programmes ahead of European monetary union," says Caroline Méroz, European equity strategist at JP Morgan and the author of the bank's recently-published study.

"In the run-up to Emu, we believe European governments may feel under increasing pressure to accelerate their privatisation pro-

Expected western European privatisation



Western European privatisation offerings



grammes to place themselves on track to meet the Maastricht 3 per cent deficit criterion," she says.

While privatisation proceeds cannot be taken into account when calculating a country's budget deficit, they can be used to reduce governments' overall debt. Lower debt servicing payments are particularly important for France, Spain and Sweden.

Privatisations will remain focused on key sectors such as telecommunications, utilities, energy companies, banks and industrials. Telecoms are expected to continue to dominate, followed by utilities; together, they are likely to account for 56 per cent of sale proceeds in 1997, JP Morgan predicts.

The energy sector, expected to be the third-largest this year, will continue to depend quite heavily on the support of international investors, while the banking and insurance sectors will rely more on domestic buying, including from their

own customer base.

Italy has the most ambitious privatisation programme for 1997 with nearly \$20bn of sales planned, followed by France (\$11bn), Spain (\$8.6bn) and Germany (\$8bn).

While offerings will continue to rely on international investors, domestic buyers – both institutions and retail – are expected to take up about 60 per cent of this year's privatisations.

In 1996, domestic investors took up close to 64 per cent of European issues, JP Morgan says. In the case of Deutsche Telekom, for example, German investors were allocated 67 per cent of the issue, of which 60 per cent went to retail accounts.

Overall demand for European privatisations should remain strong as a result of continued demand for international equities from US mutual funds and the gradual growth of the pension fund industry in Europe, the bank predicts.

In the US, net flows into

international-only equity mutual funds increased threefold last year from 1995, and international equities now account for 10 per cent of total equity assets held by US mutual funds.

European mutual funds last year saw subdued demand for equities and strong flows into bonds. However, if, for example, French and Italian mutual funds were to return to their previous peak weightings in equities – a likely scenario with European bond yields now close to record lows – that could generate additional demand for domestic shares, worth \$7.7bn in France and \$13.7bn in Italy, JP Morgan calculates.

The privatisation pipeline through to the end of the decade will increase equity markets' capitalisation and liquidity and change the composition of the major indices. For instance, Deutsche Telekom makes up 4.5 per cent of Germany's Dax index, while Eni, the Italian oil company, constitutes 22.1

per cent of Italy's MBI index. "The size of privatisation offerings constitutes an important part of the indices, so investors willing to maintain their weightings are likely to increase their positions in those stocks," the report says.

Economic fundamentals also augur well for large equity offerings this year. Ms Méroz says: "We expect growth to pick up and short-term rates to continue falling across Europe in the early part of 1997 and then to remain stable until the year-end – everything is in place for a good performance of the markets, which should underpin privatisations this year."

Overall, 1996 was a better year than 1995 for European privatisations due to the strong performance of the region's equity markets. The FTA Europe ex-UK index rose 25.7 per cent in 1996, against a 9.3 per cent increase in 1995.

However, strong underlying markets were not neces-

Expected western European privatisations by country (% by value)

Country	1996	1997*	1998*	1999*
Austria	1.8	1.1	1.0	0.0
Belgium	0.2	0.0	0.0	0.0
Denmark	0.4	0.0	0.0	0.0
Finland	1.8	2.2	2.4	0.0
France	10.7	20.8	8.3	49.1
Germany	31.5	9.4	26.0	0.0
Greece	1.2	0.0	0.0	0.0
Italy	24.0	36.3	15.2	20.5
Ireland	0.0	0.0	0.0	3.6
Netherlands	2.4	1.1	12.0	0.0
Norway	1.5	0.0	0.0	0.0
Portugal	4.3	5.2	4.1	0.0
Spain	5.9	18.2	13.7	17.9
Sweden	2.1	2.0	3.5	0.0
Switzerland	0.0	0.0	3.5	0.0
Turkey	0.0	1.2	0.0	0.0
United Kingdom	12.1	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: JP Morgan estimates

Share ownership structure in Europe (%)

	Financial Companies	Non-financial Companies	Foreign Investors	Public Sector	Private Investors	Total
France	23.0	18.4	22.1	6.4	32.1	100
Germany	18.7	42.4	18.2	5.5	16.8	100
Italy	22.2	18.7	6.6	23.8	26.8	100
Netherlands	20.0	—	30.0	—	51.0	100
Spain	18.2	10.1	23.3	18.3	32.1	100
Sweden	31.0	24.0	21.0	8.0	17.0	100
United Kingdom	61.8	1.5	16.3	2.8	17.7	100

* domestic, non-identified

Source: Federation of European Stock Exchanges

sarily enough to ensure the completion of some countries' privatisation programmes.

Spain's equity market, for example, was the strongest performer in 1996, with the Ibex index rising 42 per cent, but only about 51 per cent of its privatisation programme was completed, slowed in part by general elections which ushered in a new government.

Italy, on the other hand, was the second-biggest issuer in Europe with \$10.3bn in privatisation sales, although its market was one of the weakest, underperforming Europe by nearly 15 per cent.

After a lacklustre start, the pace of European privati-

sations accelerated to culminate late in the year with the \$5.9bn sale of shares in Eni, the Italian oil company, and the \$13.5bn sale of part of Deutsche Telekom. Together, they accounted for 25 per cent of last year's privatisation proceeds.

Retail incentives – widely used in 1995 – were not needed in 1996 due to the strength of the underlying stock markets.

However, other innovative deals in 1996 included share buy-backs by Nordbanken, DSM and the recently announced buyback by KLM. "Share buy-backs have become a popular alternative method of privatisations," the report states. "We believe that in 1997 govern-

ments could continue to use this method to dispose of residual holdings."

Few privatisations in the last two years have managed to outperform their European peers on a sector basis, even when they did outperform their domestic markets. Among the best performers – both against their local market and relative to their sectors – are Nordbanken, Eni, Telefonica, Railtrack and AGF.

With investors becoming increasingly sector-oriented, "the performance of privatisations relative to their sector will become more important, especially for international investors," the report states.

14 GLOBAL INVESTMENT BANKING

Emerging markets



Sofia: politically there is still wide scope for things to go awry in some markets

■ Emerging market debt: by Edward Luce

An impossible act to follow

Investors may find that Brady bonds will still be an attractive option this year

Last year was so good for emerging market debt that even professional optimists doubt there could be a repeat performance in 1997. In fact, with average spreads on Brady bonds - issued in the late 1980s in exchange for distressed commercial bank debt - narrowing from 1,048 to 531 basis points over US Treasuries, according to one investment bank index, a precise re-run of 1996 would be technically impossible.

Many, however, believe that the reasons for last year's stellar performance remain as compelling now as they were 12 months ago. The steep rise in emerging market bond issuance and the dramatic tightening of spreads on existing and new debt in 1996 was prompted by a number of factors.

First, Bradys started off the year from a high base with some, such as Venezuela, Ecuador and Mexico, yielding more than 1,000 basis points over US Treasuries at the outset. Returns on this scale were anomalous in most cases and were

bound to fall sooner or later. Even countries such as Nigeria, which started the year 3047 basis points over Treasuries and ended it 636 over, looked set to benefit.

Yields are starting 1997 from a much lower base, but spreads of around 500 basis points over Treasuries in most cases still look attractive to investors seeking to improve on diminishing coupons attached to European government bonds.

"The total return on Bradys was close to 40 per cent in 1996, which is impossible to emulate," said Peter West, head of emerging markets research at WestMerchant Bank in London. "We expect returns of more like 20 per cent in 1997, which is still impressive."

Second, global interest rates remained low in 1996, providing a benign environment for emerging market issuers. US and European investors sought to diversify their portfolios and boost returns, thus ensuring that new issuers such as Russia, which launched its debut eurobond last year, got a good reception. The seemingly relentless convergence process of European countries towards European monetary union drove continental yields down to historically low levels.

Much in 1997 will depend

on whether this process continues and - more importantly - on whether US interest rates remain low. "A 50 to 75 basis point rise in US rates would have a temporary effect on the flow of funds to emerging markets, but nothing on the scale of what happened in 1994 (one of the worst years in recent times for emerging markets)," said Paul Luke, head of emerging markets strategy at Deutsche Morgan Grenfell in London. "Anything higher than 75 basis points could have a more dramatic effect."

Should Japanese economic growth rates pick up strongly in 1997, it could prompt the Bank of Japan to raise interest rates, sparking a global liquidity crunch as Japanese investors repatriate capital. Mr Luke added. Most economists, however, consider a decisive Japanese revival unlikely this year.

Third, Latin American and east European economic fundamentals continued to improve during 1996 after the rupture caused by the Mexican "tequila" crisis in late 1994. Declining inflation rates - in some cases dramatically, such as Brazil where inflation dropped from about 2,000 per cent in 1994 to just 12 per cent at the end of last year - and rising growth rates are expected to

continue in 1997. Nothing can be taken for granted, but economists believe that the reform process will continue unabated during 1997.

Politically, there is still wide scope for things to go awry, with some focusing on the possibility that Bulgaria will default on its Brady debt repayment at the end of the month. Bulgaria, which remains the only leading Brady country to have spreads of over 1,000 basis points over Treasuries, is considered capable of default because of the tense political situation, although few believe such a move would infect investors' view of other emerging markets. The spectre of a Bulgarian default triggering a Mexico-style contagion is, therefore, slim.

More vexingly, the uncertainty which would follow the death of Russian President Boris Yeltsin could have a knock-on effect on east European and Russian debt but would be unlikely to spread to emerging markets as a whole.

Barring any mishaps, investors say that an expected \$800m Russian eurobond in the first half, plus one or two debut eurobonds by central Asian republics following Kazakhstan's success last year, are expected to be well received. In addition,

both Moscow and the city of St Petersburg are planning debut municipal eurobonds in 1997 of around \$150m apiece.

"Russia is the great emerging debt opportunity," said Jerome Booth, director of research at ANZ in London. "With such poor tax revenues, the Russian government is dependent on debt. It is running a trade surplus and it has the largest natural resource reserves in the world. It is very unlikely to default."

This year is also expected to be a good one for credit upgrades, with Mexico, the Philippines and possibly Venezuela due for investment grade status, according to market expectations. Others, including Brazil and Argentina, are expected to be pushed up a notch during the year.

J.P. Morgan, the US investment bank, predicts that its emerging market bond index will grow by 15.5 per cent over the year compared to 39 per cent in 1996, with average spreads tightening to 390 basis points in the next 12 months. Growth in J.P. Morgan's emerging local market index, which measures the performance of bonds issued domestically in local currencies, will drop from 15 per cent to 9 per cent in 1997, it says.

Growing competition to catch investors' attention is also likely to spur further innovation in debt issuance during the year, with more sophisticated instruments - such as eurobonds denominated in local currency and asset-backed securities - becoming more common.

A recent report by Deutsche Morgan Grenfell predicts that investors will increasingly tap domestic markets shifting attention from the risk of sovereign default to the hazards of convertibility.

"We expect a lot more people to put funds into local currency debt," said David Atkinson, local currency analyst at DMG. "It is more or less true to say that outright default of internal debt doesn't happen. What investors should be looking at is a more sophisticated model of currency risk, pricing, credit and convertibility."

■ Africa: by Tony Hawkins

Powerful allure of privatisation

Indigenous and foreign groups are gearing up to take advantage of new opportunities

Privatisation, corporate restructurings, stock market development and black economic empowerment are fast becoming a growth industry in sub-Saharan Africa.

The vast majority of new entrants to the region's financial services sector are investment bankers in the very broadest sense, with activities ranging from foreign trade financing and currency dealing to brokerage and portfolio investment services. The entrants fall into two distinct categories - indigenous groups, often with limited capital resources, and international groups seeking to exploit opportunities primarily in emerging stock markets and the region's developing privatisation programmes.

In the main, the two are targeting very different markets. Entry barriers to African investment banking are political and institutional rather than financial. Because capital requirements are much smaller than for retail banking and the focus on wholesale financing and services means that investment banks do not need to develop expensive branch networks, the industry is able to attract a growing number of indigenous financiers.

These new indigenous investment banks are nibbling away at the market shares of the large state-owned banks and the tiny handful of international companies, such as Barclays, Standard Chartered and South Africa's Stanbic, and the French banks in the CFA Franc zone. While they are attracting much of the higher risk business, they are, however, finding it difficult to break into the market dealing with multinationals, where the foreign-owned banks are dominant.

The arrival of these indigenous groups has further segmented the African banking market not just on the basis of the different services offered by investment banks but also because their greater exposure to risk has resulted in setbacks, especially in Nigeria, but also in Kenya and Zambia, where the authorities have been forced to intervene to close or recapitalise and merge unsuccessful merchant and banks.

The foreign entrants are in a very different category. Most have headed for South Africa, where rather than take on the existing powerful high-street commercial banking groups - ABSA, Stanbic, First National and Nedcor - they have set up boutique operations targeting the high-volume low-margin corporate business.

Net capital flows to Africa

1990	2.5
1991	3.4
1992	2.9
1993	7.0
1994	12.4
1995	11.8

Source: IMF

They are well-placed to sell their expertise in the new South Africa, where corporate restructuring is high on the business agenda as returning and new investors reorganise their operations, often using South Africa as a launchpad for sub-Saharan operations.

At the same time South African conglomerates are unbundling - often as in the case of JCI using this as a vehicle for black economic empowerment.

In South Africa, foreign institutions have also been buying into Johannesburg Stock Exchange securities businesses. Virtually all the leading JSE brokerage firms now have institutional shareholders, many of them

the sale of a strategic stake in Telkom likely to be the first large transaction.

Zambia has advertised the sale of the state-owned Zambian Consolidated Copper Mines (ZCCM) which is being demerged into 12 different packages. Investors will be able to buy a majority stake in each package, with the government retaining - for the time being - a minority holding of 20 per cent to 25 per cent of the shares in most of the unbundled companies. These shares will subsequently be sold off through the Lusaka Stock market.

Potentially the most exciting deal of all for the investment banks is Nigeria's proposed privatisation of its energy sector, which could net upwards of \$400m for the Federal government. Not only that but the sell-off of the country's oil and gas businesses, including the oil refineries, would transform the economic outlook for Africa's most populous country, bringing with it enormous opportunities for investment banks.

In addition to privatisation and company restructuring, there is a growing list of schemes which will have to be funded by private capital. These include big mining and energy projects, especially but not only in West Africa, cross-border projects such as the ambitious Maputo Corridor scheme in Mozambique and South Africa, and an iron briquette project, also in Mozambique, drawing on iron ore from neighbouring Zimbabwe. Indeed, Mozambique has a portfolio of ten big resource-driven projects that will cost in the region of \$9bn to develop.

Add to these the enormous financial challenges of rehabilitating and expanding Africa's inadequate, run-down infrastructure and of rebuilding economies ravaged by war (Angola, Mozambique, Somalia, and Liberia among them) and the opportunities for investment banks to exploit their skills of technical advice and capital mobilisation are almost limitless.

It was private capital that opened up the dark continent before the 1950s when the aftermath of decolonisation and the popularity of state ownership, often championed by well-intentioned, if economically illiterate western donors and technical advisers, contributed to the region's decline.

Thirty years later, the ball is back in the private sector's court and the investment banks, for whom much of sub-Saharan Africa has been no-go territory, now have a crucial, and potentially profitable, catalytic role to play.

* Paul Bannell, *Privatisation in Sub-Saharan Africa: Progress and Prospects during the 1990s*. Institute of Development Studies, University of Sussex.

Most foreign entrants to investment banking have headed for South Africa

foreign - SBC Warburg, Deutsche Morgan Grenfell, Flemings, James Capel, Société Générale, Merrill Lynch. This trend has not been confined to South Africa. Foreign investment banks have also bought into brokerage operations in Kenya and Zimbabwe. While the newer African stock markets have, as yet, generated little international enthusiasm, the moment of truth will come if and when they are used as vehicles for privatisation.

A recent study by Paul Bannell of the Institute of Development Studies at Sussex University* estimates that in 1996/97 some 800 state-owned enterprises in 17 sub-Saharan countries are being prepared for privatisation. Big new privatisation programmes have either been launched or reactivated in another 15 countries, and, according to Bannell, by the end of 1997 there will be "only a tiny minority of countries in sub-Saharan Africa that will not have fully-fledged privatisation programmes".

On his conservative estimates, at least 1,500 more privatisations will have been completed by the end of the decade.

The really exciting programmes will be in South Africa, Zambia, and possibly Nigeria. In South Africa, the African National Congress is committed to privatising some big parastatals, with

even lower spreads. Light, the electrical utility, was won by Goldman Sachs with a bid of 2.1 per cent. Competitors said this was the lowest they had seen Goldman bid on such a deal. Goldman retorted that its fee reflected the established US market convention that utility business always carries lower spreads than those associated with industrial or financial services companies.

CVRD, the giant mining company, was awarded to Merrill Lynch, however, at an even lower fee - 1.9 per cent. In justifying this, Merrill said this spread was a blended spread. Parts of CVRD would be sold direct to other buyers and conventionally business such as this carried significant lower fees.

No such reasoning was available to Morgan Stanley, which bid an unprecedented 1.5 per cent to win the mandate for the privatisation of Unibanco. It sent a strong signal to competitors that for Morgan Stanley, Brazil was an important place to do business.

However, the Brazil experience suggests that the well-capitalised and aggressive US investment banks have at least a march on their European competitors. New York's huge broker-firms are dominant in Latin America's biggest and most important market.

■ Latin America: by Stephen Fidler

Post-crisis blues are over

Prospects for the region's economies and financial markets are seen as strong

Just two years after Mexico's financial crisis spooked the international financial markets, international investment banks are back in force in Latin America. While Asia's emerging markets remain a more significant source of income, interest in Latin America has recovered substantially since the crisis.

Prospects for the region's economies and financial markets - particularly the stock markets - are seen as strong. Most of the larger economies are expected to grow faster this year than in 1996, a year of recovery after the misery of 1995 - with the exception of Chile which will still register an important expansion. And after last year's rally in the Brady and other fixed income markets, many analysts are expecting to see a greater focus on the stock markets as equities outperform Brady bonds.

Company valuations are moderate - with shares at simple price to earnings ratios of between 10 to 13 - and earnings growth is forecast to pick up along with the economies. According to Mark Precious, director emerging markets equity research at SBC Warburg:

"There definitely is a switch of interest from Asia to Latin America."

There is as yet, however, no evidence of any large-scale commitment of funds from US institutional or retail investors as happened during the premature 1993-94 euphoria over Latin America. "There is no massive wall of money that's going to Brazilian or Latin American funds," says one banker at Goldman Sachs. "There is not a dramatic sea change. Before this happens what we really need to see is a lot more investor funds dedicated to that part of the world or money committed from funds that are not dedicated."

With Latin American family companies resisting initial public offerings at what they consider undervaluations, the deal flow of Latin American equity offerings has been slow compared with Asia. The most significant in the region last year was the Venezuelan government's offering of its remaining stake in the telephone utility, Cantv.

With primary market activity modest, and intense competition driving down margins in the secondary market for Latin American equities, the fixed income markets, which enjoyed important rallies last year, provided an important source of income. A significant volume of business for

investment banks was also associated with proprietary and customer trading that took advantage of the huge interest differential between the dollar and the Brazilian real and the latter's relative stability against the dollar.

Brazil has, however, sparked significant competition among investment banks for a share of its potentially huge privatisation business. Not only is the federal government in Brasilia selling off its companies, but the huge utilities and other public corporations owned by the Brazilian state are being put up for sale. Attempts to establish a strategic position in this market has led to some aggressive bidding for mandates that is seen by some as excessive. Amid the competition, fees have fallen significantly.

According to investment bankers, earlier privatisations, such as that of the steel maker Usiminas, established a benchmark for fees of between 2 and 2.5 per cent, a level that many banks at the time considered to be too low. Bear Stearns won the mandate for Usiminas at a fee of 2.25 per cent. In another earlier privatisation, J.P. Morgan won the mandate for Cemig, the Minas Gerais electrical utility, at 2.4 per cent.

However, the later deals to emerge have established

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Emerging markets

GLOBAL INVESTMENT BANKING 15

■ South-east Asia: by Louise Lucas

New generation branches out

Companies are looking overseas to satisfy the need for large amounts of capital

If there is one broad subject that brooks scant dissent among investment bankers, it is Asia. While some will allow that certain countries look less appealing, and others see specific product lines stunted, the dominant theme is that the region as a whole is set to be a lucrative one for the industry.

"Overall, investment banking is very buoyant," says Kevin Westley, chairman and chief executive of HSBC Investment Banking. "And that is driven principally by the fact there's huge demand for capital funds around the region."

Demand is being stimulated by a number of factors, including healthy economic growth in the countries themselves which is resulting in expansion of industry and infrastructure development. Beyond that is the shift taking place within many of the region's big companies.

Many of these corporates are themselves in a state of transition as they face the next stage of expansion - which in many cases means going overseas - with a new generation at the helm.

The upcoming generation has often been educated in the west, and is more receptive to breaking away from the traditional Asian business mould. This means, among other things, less reliance on tight family control and a desire to seek new markets overseas.

"Asian companies have come to a crossroads," says Viswanathan Shankar, who is heading Bank of America's relatively recent thrust into investment banking in Asia. "Many of their growth ambitions obviously have a requirement for large amounts of capital, and not all that capital can be sourced from within their own domestic markets."

Realising this, Asian corporates are increasingly seeking credit ratings, and a number of home-grown ratings agencies have sprung up to serve their needs within the region. This has enabled more Asian corporates to tap the debt markets, where once they would

automatically have issued more equity.

These changing dynamics are reflected in the portfolios of investment banks. Fixed-income was the single biggest contributor to profits at Peregrine Investment Holdings, the young and thrusting Asian investment bank, last year, and the base is expected to expand further as Peregrine becomes more active in domestic markets such as Korea and India.

For Philip Tose, chairman of Peregrine, the attractive side of the fixed-income business is corporate. "There's no margin in sovereign," he says. "You get your name in lights and lose money. It's not my game, thank you."

Mr Shankar says the trend towards debt instruments has been further stimulated by greater acceptance - promoted in turn by yield pick-up and desire for greater diversification - of Asian paper in the US and European markets.

As examples, he cites the global bonds placed by Petronas, Malaysia's national oil company (which last autumn raised US\$1.9bn in a three-tranche offering) and Reliance Industries of India, which launched a Cen-

tury Bond in the yankee market.

A parallel trend, says Mr Westley, is the growth of domestic bond markets within Asia. While still thin compared with Europe or the US, the development of pension schemes in many of the markets means there will be bigger pools chasing domestic fixed-income instruments.

Also, Asian governments are making efforts to put in place the infrastructure needed, particularly in terms of yield curves - issuing paper of ever-increasing maturities to build out the curve, despite the fact that many of the governments run balanced budgets and have little real need of loans.

Bonds are also expected to play a greater role in funding infrastructure projects, following the landmark deal for China's Zhuhai Highway last summer. Some \$300m was raised, and ratings agency Standard & Poor's hailed the deal as the first genuine non-recourse infrastructure bond issue by a Chinese borrower in the cross-border bond markets. The issue was lead-managed by Morgan Stanley.

For now, such projects as

come to fruition mostly do so with the help of project finance. While it is a sector in Asia which has tended to generate more profit than actual results in the past, bankers report a massive opening of the floodgates from the end of last year.

"I see the pipeline of our own business, and it's huge," says Robert Fallon, head of Chase Manhattan Bank's Asia-Pacific division. "I see no let-up. We see more and more project financings being lined up, and there's a fairly long lead time."

Chase is venturing beyond the traditional stamping ground of China and the Asian countries, and is assessing opportunities in Vietnam and Laos. As well as infrastructure and power, there are petrochemical-related projects in Thailand and resource-based ones in Indonesia.

However, the jury is still out on China, where the lack of a clear legal framework (meaning rules or tariff mechanisms can suddenly be changed) has hampered a number of urgently-required power plants and roads.

Some banks remain wary, particularly when there are so many alternative coun-



Beijing: the jury is still out on China

tries seeking finance.

Others, like Mr Westley, take comfort from China's growing pile of foreign reserves, which now stands at over \$100bn.

"Bankers are looking much more now at conventional credit assessments - are you building the right plant in the right place for the right price, and are you

going to be able to sell that amount of electricity at those prices?

"These are the same questions as you would ask of any major project in most places in the world."

Project finance is just one of the areas bankers are looking to capitalise upon this year, and demonstrates the changing profile of

investment banking in the region.

As Mr Tose notes: "Pure agency business is becoming a very thin margin business, and the whole area of derivatives and structured trading is going to play a bigger and bigger role as we go forward - and that requires bigger and bigger capital resources."

■ Eastern Europe: by Anthony Robinson

Big economies attract interest

Poland and Romania are expected to be the main draws for investment

Restructuring and privatising broad swathes of former communist Europe's industrial, banking and service industries is proving good but increasingly competitive business for US and European investment banks. Much of central Europe is demanding increasingly sophisticated services as the level of foreign investment and integration into the global economy proceeds apace.

However, the picture is still patchy. Bulgaria is facing the untested rigours of a currency board system in a last-ditch attempt to ward off a second default on its foreign debt in seven years while Serbia is facing an economic black hole. Russia, for all its progress in reducing inflation and stabilising the economy, remains starved of investment and is still awaiting political clear skies and a return to economic growth.

Hungary, which has been the focus of much investment banking activity over the past two years, demonstrated how a looming debt crisis can be the best way to persuade socialist governments that privatisation is a good thing, especially if it can be arranged quickly and with competitive bidding to obtain the best terms.

A raft of industrial and utility privatisations over the past two years brought more than \$50m in foreign investment into Hungary and kept investment banks busy. The bulk of Hungary's "crown jewels" have been sold off. A handful of substantial deals are still in the offing, however, including an initial public offering by Matav.

NM Rothschild and Credit Suisse First Boston led the first two privatisation stages which left 67 per cent of Matav, the telecommunications company in the hands of Magyarom, the Deutsche Telekom and Ameritech consortium. Merrill Lynch recently won the tender to prepare the third stage, an IPO through which Magyarom will cut its stake in Matav to 51 per cent.

Thanks to the influx of foreign capital, technology and management Hungary's overall economic performance, and especially export competitiveness, has sharply improved. Credit Suisse First Boston's James Bartha notes that over the past few months Budapest has started to enjoy a virtuous circle of declining domestic and foreign debt, lower inflation and falling interest rates. As debt levels and interest rates fall, Hungary enjoys ever tighter terms on a foreign debt which once threatened asphyxiation.

With the Hungarian experience in mind Bulgaria's socialist government reluctantly launched itself on a similar path with a crash privatisation programme. Sofia hopes to raise \$1.2bn this year, of which possibly up to \$600m will come from

the sale of a 25 per cent stake in the telecommunications company. Six leading investment banks, including Deutsche Morgan Grenfell, are competing for the mandate which is expected to be awarded in mid-February.

Meanwhile, the main focus of attention over the next two years is likely to settle on the bigger economies, especially Poland and Romania, and with less conviction, on Russia and Ukraine.

Poland, populous and fast growing, and Romania, whose stock is rising high on the back of what appears to be a democratic, reforming government, are expected to be the main draws for investment bankers over the rest of the decade.

In Warsaw, the political static level is likely to increase sharply as elections in the autumn loom closer. But several big deals are in the pipeline. They include an IPO which will mark the first stage in the privatisation of Bank Handlowy and a start to the privatisation of Polska Miedz, the copper and silver combine and Polska Telekom.

Bank Handlowy, Poland's biggest bank, is being advised by Schroders. It is fighting to retain its leading role in foreign exchange and trade finance, its former monopoly, while developing its corporate finance and general banking business. It is also seeking a strategic investor to strengthen its capital base and compete in a market increasingly crowded by German, Dutch and US banks. Elsewhere, HSBC is advising the government on privatisation of Warsaw-based PBK bank while Stalexport, a leading Polish steel company, is breaking new ground by issuing the first London-listed convertible eurobond by a Polish company.

Guy Harrington, of Schroders, points out that the London-based banks were quick to spot Poland's potential while the big US houses initially preferred Prague, where rapid formal privatisation has not yet been followed by enterprise restructuring on the expected scale. German, Dutch and Austrian banks are also increasingly active in the region, especially ABN-Amro and ING which has built a strong stake in Poland's Slaski bank and a thriving business in debt trading, foreign exchange and trade finance. Germany's Commerzbank has a stake in Poland's Export Development Bank while other German banks have followed the influx of private small- and medium-sized companies seeking both a low-cost production base and a growing market.

Vienna-based EPIC was among the pioneers in Slovenia and Croatia and recently won the tender to privatise Politava, a big Ukrainian light bulb company. Union Bank of Switzerland, meanwhile, retained close links with Croatia while it was still at war and was lead banker in Croatia's two highly successful IPOs on international markets, Piava and Zagrebacka Banka.

DEPOSITARY RECEIPT LEADERSHIP

AO Chernogornett SPONSORED AMERICAN DEPOSITORY RECEIPT (ADR) FACILITY Established by This announcement appears as a matter of record only.	AO Torgovy Dom GUM SPONSORED AMERICAN DEPOSITORY RECEIPT (ADR) FACILITY Established by This announcement appears as a matter of record only.	AFT Satellite Holdings Limited NYSE Symbol: AHS SPONSORED AMERICAN DEPOSITORY RECEIPT (ADR) FACILITY Established by This announcement appears as a matter of record only.	ASTRA New York Stock Exchange Listing NYSE Symbol: ASTRA Class A ADR: AAS Class B ADR: AAB SPONSORED AMERICAN DEPOSITORY RECEIPT (ADR) FACILITY Established by This announcement appears as a matter of record only.	AVA INSURANCE & INVESTMENT NYSE Symbol: AVA SPONSORED AMERICAN DEPOSITORY RECEIPT (ADR) FACILITY Established by This announcement appears as a matter of record only.	BBV BANCO BAHIA VITORIA NYSE Symbol: BBV SPONSORED AMERICAN DEPOSITORY RECEIPT (ADR) FACILITY Established by This announcement appears as a matter of record only.
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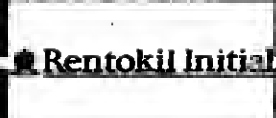
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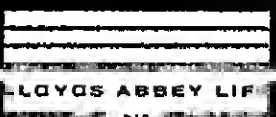
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